
NEXT STOP:
CUSTOMER
MANIA 1.5km
KFC
Pizza Hut
TACO BELL®
ANNUAL REPORT
2001
Tricon Global Restaurants

FINANCIAL HIGHLIGHTS

(in millions, except for store and per share amounts)

Number of stores:	2001	2000	% B(W) change
Company	**6,435**	6,123	5
Unconsolidated affiliates	**2,000**	1,844	8
Franchisees	**19,263**	19,287	—
Licensees	**2,791**	3,163	(12)
Total stores	**30,489**	30,417	—
System sales	**$ 22,328**	$ 22,159	1
Total revenues	**$ 6,953**	$ 7,093	(2)
Ongoing operating profit	**$ 889**	$ 888	—
Facility actions net loss (gain)	**$ 1**	$ (176)	NM
Unusual items (income) expense	**$ (3)**	$ 204	NM
Operating profit	**$ 891**	$ 860	4
Net income	**$ 492**	$ 413	19
Diluted earnings per common share	**$ 3.24**	$ 2.77	17
Diluted ongoing earnings per common share	**$ 3.21**	$ 2.98	8
Cash flows provided by:			
Operating activities	**$ 832**	$ 491	70
Refranchising proceeds	**$ 111**	$ 381	(71)

AVERAGE U.S. SALES PER SYSTEM UNIT[a]

(in thousands)

	2001	2000	1999	1998	1997	5-year growth[b]
KFC	**$ 865**	$ 833	$ 837	$ 817	$ 786	2%
Pizza Hut	**724**	712	696	645	630	3%
Taco Bell	**890**	896	918	931	902	—

(a) Excludes license and specialty units

(b) Compounded annual growth rate

WORLDWIDE SYSTEM SALES

(in billions)

	2001	2000	1999	1998	1997	5-year growth[a]
United States						
KFC	**$ 4.7**	$ 4.4	$ 4.3	$ 4.2	$ 4.0	4%
Pizza Hut	**5.0**	5.0	5.0	4.8	4.7	1%
Taco Bell	**4.9**	5.1	5.2	5.0	4.8	1%
Total U.S.	**14.6**	14.5	14.5	14.0	13.5	2%
International						
KFC	**5.0**	5.0	4.6	4.0	4.4	4%
Pizza Hut	**2.6**	2.6	2.6	2.5	2.5	—
Taco Bell	**0.1**	0.1	0.1	0.1	0.1	—
Total International	**7.7**	7.7	7.3	6.6	7.0	2%
Total	**$ 22.3**	$ 22.2	$ 21.8	$ 20.6	$ 20.5	2%

(a) Compounded annual growth rate

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Dear Partners,

The usual course of action is for the chairman to start the annual letter with a statement about all the progress the company has made the past year. While 2001 was definitely a winning year, I'm going to start by making a point we think is even more important.

DEFINING REALITY Stepping back, even our toughest critics would give us credit for our marketing and product innovation. However, I want you to know that we don't think we're nearly as good as we should be at doing what matters most in our industry: running great restaurants and making our customers happy.

If you were to look at our customer survey numbers, you would see we rank in the middle to bottom tier on the basics, and last in the attitude we convey regarding our commitment to customer satisfaction. This is unacceptable and as you'll read in this report, we are bound and determined to do something about it. We began making improvements in 2001 and we will not rest until we are ranked number one by our customers.

Despite this significant opportunity, any way you look at it, we've made a ton of progress since we became a public company in October 1997. We've more than doubled our ongoing operating earnings per share and increased our ongoing operating profit at a 7% compound growth rate. We've grown system sales 9% and opened over 5,200 new restaurants, excluding license restaurants, around the world. We also accomplished this while dramatically improving our returns by refranchising, or selling, about 3,800 restaurants to our franchisees.

In 2001, we achieved our full year ongoing operating earnings per share target by turning in $3.21 per share in a very challenging operating environment. When you look at our financials, you'll see all the numbers that should be going up are, in fact, going up, and all the numbers that should be going down are going

The first stop on the journey to YUM! starts with training our 725,000 team members worldwide to be Customer Maniacs by executing 100% CHAMPS with a YES! attitude.

down. Our international development machine continues to hum — we're pleased to report we set a new record by opening 1,041 new restaurants, excluding license units, outside the United States. And, as you'll see from the reports from our company presidents, there's no question the U.S. brands are in much better shape than a year ago. Most importantly, the new management teams we put in place in 2000 have generated significant same store sales momentum at both KFC and Taco Bell. As a result, Tricon shareholders enjoyed a 49% increase in the price of their shares in 2001.

Just think what we will do when we simply do a better job running great restaurants and making our customers happy.

THE JOURNEY: CUSTOMER MANIA We want Taco Bell, Pizza Hut and KFC competing with each other for the number one spots for Cleanliness, Hospitality, Accuracy, Maintenance, Product Quality and Speed — what we call CHAMPS and what we've built our global operating platform around. And just as importantly, we want our brands demonstrating to our customers that no one is more passionate about satisfying their needs with what we call the "YES" attitude.

So we're on a journey to make Customer Mania a reality in every one of our over 30,000 restaurants.

This year our task is to begin training our 725,000 team members worldwide on how to be Customer Maniacs by executing 100% CHAMPS with a YES! 100% of the time. We plan to execute this training each quarter and keep it fresh year after year. Our intention is for our Customer Mania training to be our equivalent to General Electric's long term commitment and focus on Six Sigma quality improvements. We're putting process and discipline around what really matters — everything related to customer satisfaction.

Customer Mania is not just a catchy slogan. We're making it a way of life from here on out.

TEACHING LIFE SKILLS We're teaching our front line team members the life skills that will make them successful in whatever they decide to do — skills like how to listen to the voice of the customer, how to be empathetic to customer needs, how to exceed expectations within reason, and how to recover when we make a mistake because mistakes do happen. We're empowering our team members to solve customer issues on the spot without turning to their restaurant managers. And we believe, by staying after this day after day, year after year, we will ultimately become the very best in our business at providing consistently good service.

This Customer Mania focus will allow us to capitalize on the two major growth opportunities that make Tricon a great long term investment: driving average unit volumes and opening new restaurants of our leading brands BOTH internationally and in the United States. Let me dimensionalize these opportunities that have us so excited about our future.

DRIVING GLOBAL EXPANSION We are confident we can continue to drive international expansion because we clearly have the operational scale and people capability to execute. These are always the biggest challenges to building a business outside the United States. In fact, Tricon and McDonald's are the only true global restaurant companies with any significant size. Through a lot of hard work and years of investment, we now have a very experienced team of talented international executives and 560 franchisees. This team is generating over $300 million dollars in ongoing operating profit in over 100 countries and territories.

In 2001, we set a record by opening 1,041 restaurants, excluding license units, outside of the U.S. Far left, we're celebrating the opening of our 500th (we opened our 600th in 2002) in China, and left, our 70th KFC in Beijing.

Consider this. Back in 1992, McDonald's had a little over 4,000 international restaurants — today, they have nearly 16,000! When you look at Tricon today, we have over 10,000 international restaurants with two global brands — more than 6,000 KFC's and over 4,000 Pizza Huts. We're committed to doubling our business in the next eight to ten years by growing at a clip of 1,000+ new restaurants a year. We're focusing our operations in 7 countries which accounted for over 70% of our ongoing operating profit in 2001 and we also have our franchise and joint-venture partners driving growth by opening nearly 70% of our new restaurants.

China is our shining star with approximately 550 KFCs and 65 Pizza Huts. We now have restaurants in every province but Tibet, so we are in position to serve 1.3 billion customers. KFC is ranked the number one brand by Chinese customers, ahead of Nike, Coke, Pepsi and McDonald's. One day I am certain we will have more KFC's in China than we do in the U.S. The opportunities we have in Mexico, Korea, the United Kingdom and continental Europe are also obvious and within our capability. You can expect us to grow our international profits in the mid teen rates for years to come.

We're committed to doubling our international business in the next eight to ten years by growing at a clip of 1,000+ units a year.

ACCELERATING U.S. GROWTH We will also accelerate U.S. growth. This is a tougher task because the U.S. market is more mature and more competitive. But we know we have underutilized restaurant assets and are underpenetrated.

Our U.S. average unit volumes are only about half of McDonald's and believe me, we are not capacity constrained. There's no question we are capable of generating significantly higher sales out of our 20,000 existing restaurants in the U.S.

What's more, our individual brands only have about half of the number of restaurants McDonald's has in the United States. Burger King also has 8,000 units with $1.1 million average unit volumes. In comparison, Taco Bell and KFC have over 5,000 restaurants, excluding license units. We believe we can achieve at least Burger King distribution levels for both Taco Bell and KFC.

Growing the core business is Job #1 for any company and it's Job #1 for us. Over the past 10 years we've averaged about 2% same store sales growth, and we think we can take our sales to higher levels with the one-two punch of improved restaurant operations and continued marketing and product innovation. Our U.S. companies are singlemindedly organized to get this job done.

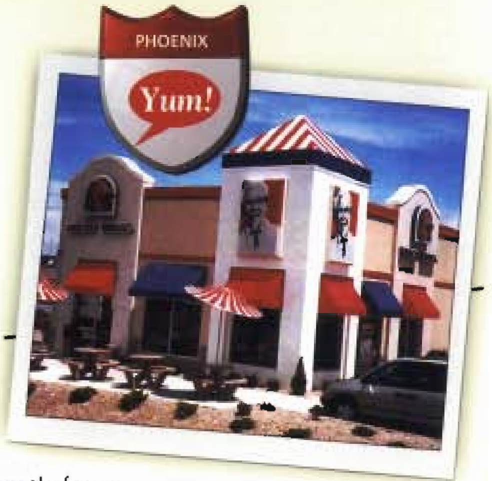
MULTIBRANDING: A BREAKTHROUGH STRATEGY

More recently, we have identified a breakthrough strategy that will transform our U.S. business and drive average unit volumes—we call it multibranding.

One reason McDonald's has $1.6 million average unit volumes is they offer the consumer more choices. In fact, they offer seven different food types — everything from burgers, chicken, fish, and shakes to breakfast. This drives sales by broadening consumer appeal.

However, our Tricon brands focus on one category. Pizza Hut has pizza in its name. KFC means Kentucky Fried Chicken. Taco Bell means Mexican. And every time we've tried to move into new categories,

We are the world's largest multibrander with over 1,500 co-branded restaurants worldwide that generate nearly $1.5 billion in annual system sales.



it fails because we stand for just one thing. Let's face it, no one is waiting with bated breath for a Taco Bell burger or Pizza Hut breakfast. But consumers do want more choice, and what we've proven is that consumers love the idea of accessing two brands in the same restaurant — multibranding.

Combinations like KFC-Taco Bell and Taco Bell-Pizza Hut enable us to add $100,000 to $400,000 per unit in annual sales — driving a quantum improvement in unit economics. Right now 5% of our assets, over 1,500 worldwide restaurants, are multibranded, generating nearly $1.5 billion in annual system sales.

Given these outstanding results, in addition to Tricon brands, our vision is to look for other multibrand partners and create our own multibrand concepts. Our goal is to ultimately offer two brands in the overwhelming majority of our restaurant locations. That's why KFC has developed a new concept called WingWorks, featuring a wide assortment of flavored chicken wings. And that's why we have secured licensing agreements with A&W and Long John Silver's in 2000 and Backyard Burgers in 2001.

Because of the significant sales increases we are generating with multibranding, we are remodeling our existing asset base and achieving great returns. We are also opening high-return new restaurants in trade areas that used to be too expensive or did not have enough population to allow us to go to market with one brand.

We intend for multibranding to unlock significant shareholder value for years to come, providing a competitive advantage that is truly changing the shape of our company.

OUR VISION — TRICON GLOBAL TO YUM! BRANDS It seems like just yesterday when we began with three leading brands, or "icons". We named the company "Tricon" to reflect that. Now, our business has evolved as we multibrand and explore other branded partnerships to drive multibranding leadership. To this end, on the day this Annual Report is going to the printer, we have announced that we have signed a definitive agreement to acquire Long John Silver's and A&W All-American Food Restaurants, which are owned by Yorkshire Global Restaurants. This agreement is subject to regulatory approval and other customary closing conditions, and is expected to close by the end of May.

Long John Silver's, with 1,200 U.S. and 25 international restaurants, is the quick service restaurant seafood leader. A&W, with 780 U.S. and 190 international restaurants, is an all-American brand with a great heritage. It offers pure-beef hamburgers and hot dogs, along with its signature root beer float. Together, these brands bring nearly $1.1 billion in system sales.

This acquisition is based on proven Long John Silver's and A&W multibrand test results with both KFC and Taco Bell. Our customers love the combinations and more choices. As a result, we have achieved significant increases in average unit volumes and profits. We're convinced this acquisition strengthens our business in every way possible, conservatively more than doubling the multibranding opportunities we have in the U.S.

Tricon U.S. Average Unit Volumes vs. McDonald's

- KFC
- Pizza Hut
- Taco Bell
- McDonald's

YUM! Brands better describes our expanding portfolio of brands. It better reflects our future direction and reinforces our New York Stock Exchange ticker symbol every time you see it. Even more importantly, it reinforces our Customer Mania passion to put a YUM on our customers' faces all around the world.

Given this exciting news, we're asking our shareholders to rename your company Yum! Brands, Inc. The name better reflects our future direction and reinforces our New York Stock Exchange ticker symbol every time you see it. Even more importantly, the name highlights the fun of our recognition culture and also reinforces our Customer Mania passion to put a Yum on our customers' faces all around the world.

I hope I've given you a sense of the opportunities we have in both the United States and international markets. As a shareholder, I want you to know the five key measures we look at to gauge our performance:

HOW YOU SHOULD MEASURE US

1) International Expansion…we want to add at least 1,000 new units and grow our capability each year.
2) U.S. Blended Same Store Sales Growth…we want to grow our same store sales at least 2% per year. Looking at our brand sales on a blended basis recognizes we are a portfolio and have the power of diversification.
3) Multibranding Expansion…we want to add at least 350 units per year in the U.S.
4) Franchise Fees…we generate over $800 million in franchise fees with minimal capital investment. We expect to grow fees 4%-6% each year.
5) Return on Investment Capital…at 18%, we are a leader in the quick service restaurant industry. We expect to at least maintain our returns by driving at least 15% margins on the stores we own and exceeding our cost of capital with our investment.

By building the capability of our people, Customer Mania will result and the profitability that will make Yum! a great investment will follow.

We intend to grow our ongoing operating EPS at least 10% every year. If we can do better, we will, but we're focused on being a company you can count on for at least 10% growth on a consistent basis.

UNMATCHED TALENT Let me close with the single most important reason why you should be confident of your investment in Yum! There is no doubt in my mind we have the best talent in the restaurant industry — talent that is focused on building one of the truly great companies in the world. Our leaders are Customer Maniacs, know and drive the business and know how to build and align teams. Together, we are building a unique customer and recognition culture that is allowing us to retain and recruit the very best. By building the capability of our people, Customer Mania will result and the profitability that will make Yum! a great investment will follow.

I'd like to thank our dedicated team members, franchise partners, and outstanding Board of Directors for their inspired ideas and commitment to customer mania. We're on our way!

YUM TO YOU!

David C. Novak
Chairman and Chief Executive Officer

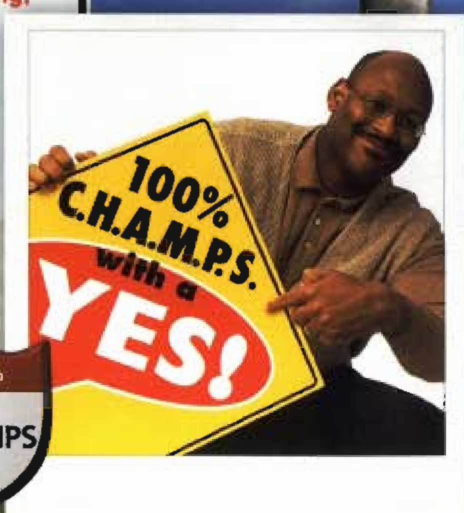
We're on a global journey to Yum!

From Mexico to Miami...from Beijing to Bethlehem, PA., to the people, the places and the energy that make KFC, Pizza Hut and Taco Bell restaurants the most cravable stops on the YUM! highway. We've BEGUN a global mission to create 725,000 CUSTOMER MANIACS and we're training the teams that will SATISFY our customers better than anyone else in the world! Follow us and meet six Restaurant General Managers who are true CUSTOMER MANIACS and are OBSESSED with going the extra mile for their customers, every day.

Wherever in the world you are, you'll find there's a CUSTOMER MANIA REVOLUTION taking place. We've begun to drive our Customer Mania obsession deep to our restaurant teams and operating systems through 100% CHAMPS with a YES! — our signature program of Customer Mania training and employee recognition. Customer Mania = 100% CHAMPS with a "YES!"

100% CHAMPS with a Yes! is an all-out effort to meet and exceed customer expectations. It's a maniacal focus on running great restaurants. It's about leading, listening, caring and responding to our customers' needs. It's the smile on our face, the cheer in our voice, the attitude and willingness to do whatever it takes to make our customers happy.

Aylwin Lewis
Chief Operating Officer



100%
CHAMPS

CLEANLINESS
C

His restaurant sparkles. That's because Franchise RGM Terry Auld treats his customers as he would a guest in his own home. This 26-year veteran inspires his team to put the customer first, always. That's why they're the #1 CHAMPS restaurant with the second highest same store sales growth in the Pizza Hut system! Now that's Customer Mania!

Terry Auld
Pizza Hut of Ft. Wayne, Inc., Ft. Wayne, IN

HOSPITALITY

H

You always feel welcomed when Fernando Rocha Lopez greets you at his KFC restaurant in Juarez Humboldt, Mexico. Fernando knows that a broad smile and a YES! attitude creates a happy, hospitable environment. Fernando inspires his team to give great customer service through regular "team together" meetings where he recognizes CHAMPS wins, talks about ways to improve service and teaches others to be mentors, too.

Fernando Rocha Lopez
KFC, Juarez Humboldt, Mexico

ACCURACY

A

Right the first time — every time. RGM Chris Avila coaches his team to pay close attention to their customers, listen and give them exactly what they want. His team has had over 20 perfect 100% CHAMPS scores in Accuracy (and the same in Speed of Service!). That's over a year of perfectly accurate service — fast.

Chris Avila
Taco Bell, Bensenville, IL

The journey to YUM has begun! We're on our way to creating 725,000 CUSTOMER MANIACS around the globe dedicated to one thing: putting a smile on our customers' faces. We're training our teams to solve issues on the spot. We're teaching them how to listen, be empathetic, and exceed expectations. It's providing great customer service 100% of the time — with a YES! attitude.

11-year veteran, Steve Morozek knows keeping his restaurant well-maintained and his equipment fine-tuned means perfect pizzas every time. And his customers noticed. Steve has increased sales by 50% in four years and is the second highest CHAMPS store (with the most 100% scores) in the Pizza Hut system. Now that's a YES! attitude.

Steve Morozek
Pizza Hut, Keyser, WV

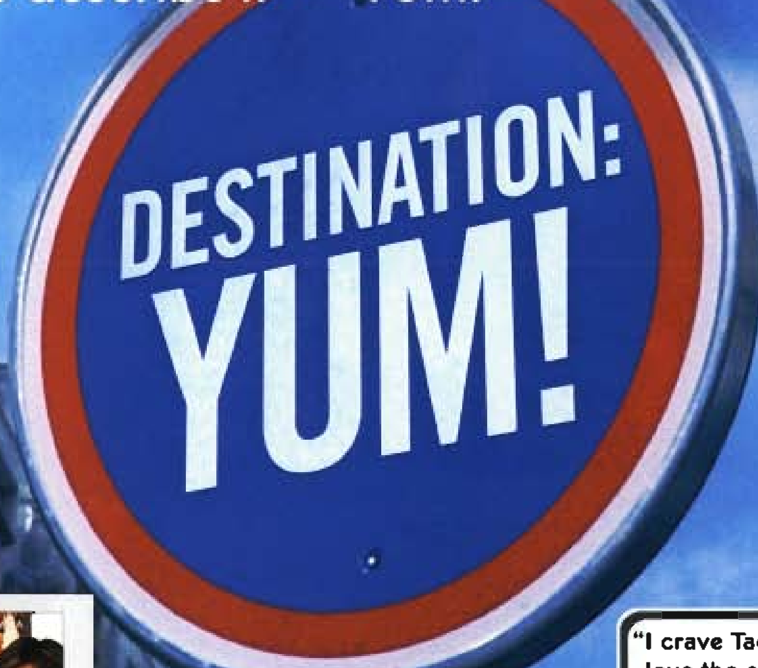
Franchise RGM Gary Reiner delivers Hot & Fresh food, every hour, every day. This 16-year veteran knows what his customers want and empowers his team to deliver — and it shows. They've had 19 perfect 100% CHAMPS scores, making them the #1 CHAMPS performer in the KFC system!

Gary Reiner
KFC, T.R. and J., Inc., Bethlehem, PA

RGM Angella Mahbeer knows that filling orders quickly and accurately guarantees repeat business. It must be working because her store has increased its' sales and received the highest CHAMPS evaluation in the Taco Bell system! Angella works alongside her team to ensure that her customers get fresh, delicious food — lightning fast!

Angella Mahbeer
Taco Bell, Miami, FL

What's in a YES! attitude? It's saying "YES! my customers are important to me!" "YES! my customers are my job!" "YES! I can solve any issue you have!" Customer Mania is not just an idea, it's a mindset, a way of being. It's about thinking like our customers and winning their loyalty. It's being totally passionate about customer satisfaction... completely focused on putting a YUM on our customers' faces. We're working hard to deliver great customer service 100% of the time and it may be a long journey, but we're on our way — and we hope you'll have one word to describe it — YUM!



SEOUL

Four Pizza Hut fans in Seoul, ~~Korea say,~~ "We love Extrema! toppings" as they enjoy cheesy slices of our signature product, Stuffed Crust Pizza. Now that's extreme YUM!

"I crave Taco Bell all of the time. I love the new Chicken Quesadillas. They're cheesy and delicious — and a great value. All of my friends and I stop into Taco Bell for a quick bite, whether at lunch, dinner or in between!"

Zeid Rihani, seen here center, with friends Phil Maguran and Dave Turner

CHICAGO

"The best thing about having my fifth birthday party at Pizza Hut is the pepperoni pizza! YUM! I think pizza is my favorite food. I like to pull the cheese with my teeth. I ask my mom and dad all the time if I can eat at Pizza Hut — every day."

Matthew McGrath
5 years old

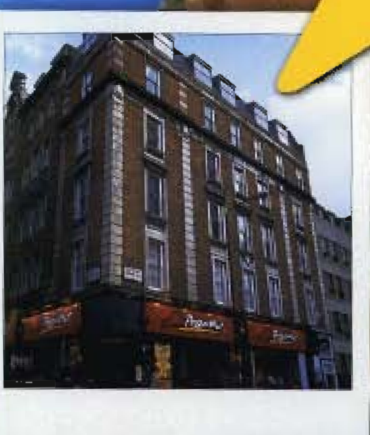
ATLANTA

"We grew up eating KFC and we like that our kids enjoy it too. With both of us working, it's not always easy to come home and prepare a meal that everyone will eat. KFC is conveniently located for us, and we can get a complete, nutritious meal — hot and fresh!"

The Hill Family
Melody, Aaron, and children Jaalam, 4, and Lyric, 2 1/2

LOUISVILLE

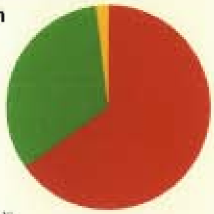
Top:
This cleverly designed KFC is the 400th in Mexico, one of our key growth markets.
Bottom: The United Kingdom is a key driver of our international business, growing ongoing operating profit by 33%.



Over the years, our International business has successfully built a sandwich business via product innovation. One such example, KFC's Zinger Cheese Sandwich, has quickly become a signature product with many variations on the same great sandwich!

International System Sales by Brand

- KFC 65%
- Pizza Hut 33%
- Taco Bell 2%



SOURCE: CREST
CREST employed new tracking methodology in 2001, therefore percentages are not comparable to prior years' results.

HERE WE GROW AGAIN

TRICON RESTAURANTS INTERNATIONAL From Hong Kong to Malaysia, a Customer Mania revolution is taking hold — driving customer loyalty and differentiating the brands through 100% CHAMPS with a YES! And there's one thing for certain — this maniacal focus on the customer is driving global growth — growth in sales, growth in profits and growth in new units. We're certain that's the same word we'll be using to describe our international business from here on out, since expanding our global business is one of Tricon's key growth strategies.

In 2001, system sales grew 9 percent and ongoing operating profit rose 12 percent on a comparable 52-week basis, excluding foreign currency conversion. Most notably, we achieved significant local currency ongoing operating profit growth in key businesses, including Greater China (up 39 percent), the United Kingdom (up 33 percent), Korea (up 20 percent) and our Asia franchise businesses (up 32%). We also grew our international presence by adding more than 1,000 new units globally, mostly with our franchisees. That's almost three new restaurants opening somewhere outside of the U.S. every day of the year — marking our second year in a row of record new store openings.

In fact, in China, our fastest growing and most profitable country outside the U.S., we opened our 500th KFC and 60th Pizza Hut restaurant in 2001. Our China business volumes and margins continue to be off the charts, and KFC has been rated the number one brand in the entire country! In 2001, between KFC and Pizza Hut, we built almost 100 new units in the UK and over 80 new units in Korea, where we have the best Pizza Hut business in the world.

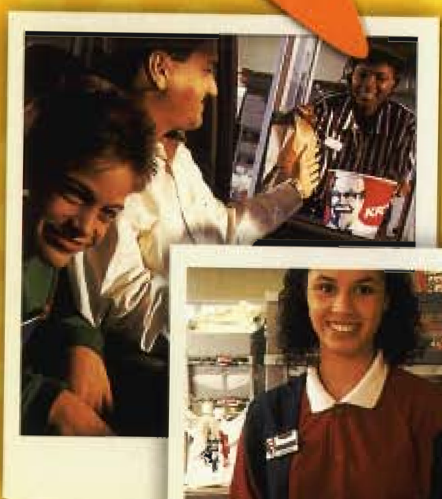
We also had big wins with new product launches last year, such as the Tempura Twister in Japan, and Satay Twister in Australia. New promotions, such as the "Hot & On Time or It's Free" guarantees in Australia and Korea, and the introduction of the Colonel's famous KFC bucket in China have added to our revenue growth.

Pete Bassi
President

There's no doubt — our team's focus on Customer Mania is the fuel that has made this growth possible. We've launched the rollout of our quarterly Customer Mania training in all of our key markets. It's our commitment to build an operating culture based on 100% CHAMPS with a YES! attitude and a system that earns customer smiles with more value, improved service and better facilities.

We've seen four straight years of growth in local currency system sales, profit and development. With the breadth and depth of our leadership, a great relationship with our franchisees, plans for more than 1,000 new unit openings in 2002, and customer satisfaction foremost on our minds, we're confident TRI is headed for much more growth and success in the future.

Below: KFC has responded to customer needs by developing menu items that adapt to a portable, on-the-go society and consumers' changing tastes. Below right: To fortify the "eat at home" experience, KFC will be serving new plated, individual meals with dividers to keep food separated.



Popular menu items like Popcorn Chicken, meet our customers' on-the-go needs. When our customers told us they wanted us to return Popcorn Chicken to our menu in 2001, we listened. In turn, our customers gave KFC an all-time record-high week of sales!

CUSTOMER MANIA

Chicken QSR Sales

SOURCE: CREST
CREST employed new tracking methodology in 2001, therefore percentages are not comparable to prior years' results.

THERE'S FAST FOOD. THEN THERE'S KFC.

KFC In 2001, KFC delivered a 3 percent improvement in same store sales and returned our chicken-on-the-bone core business to a strong position while significantly growing market share in the on-the-go segments — chicken strips, sandwiches and wings. Our biggest hit was our incredibly popular Popcorn Chicken. Now, we're ready to take KFC to the next level!

Our blueprint for the future is to differentiate our brand in everything we do. "There's Fast Food. Then There's KFC!" is our new mantra, introduced in a bold new marketing campaign this past year by Jason Alexander, our spokesperson. Jason tells it like it is: KFC doesn't offer the usual bland, processed fast food fare of our competitors. KFC is a timeless, trusted brand that stands for unique recipes, quality ingredients, fresh preparation and tender cooking. It's about homestyle meals, competitive value, friendly service — everything our customers look for in a quick service restaurant.

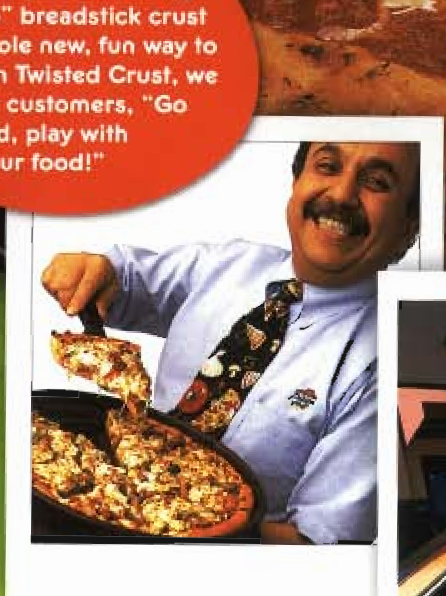
When people think of our brand, they know they can count on our quality promise, now more than ever. In 2001, KFC zoned in on the "P" in CHAMPS – Product Quality — launching "Hot & Fresh," our renewed commitment to improve the freshness, flavor and hot temperatures of our food — from kitchen to counter. This quality promise, originally made by Colonel Sanders, is kept by every restaurant operator today — with every customer and every meal served. Now that's 100% Customer Mania with a YES!

But that's not all. We're also set on growing our brand's reputation by growing our asset base. In 2001, multibranding has been a key growth driver. Today, we have over 600 multibranded stores, conveniently offering KFC and Taco Bell under one roof. At the same time, we're stepping up multibrand units of KFC and A&W All-American food, where hamburgers, hot dogs and unique root beer floats complement KFC's menu and offer more choice for the entire family. Finally, we're testing a new concept called WingWorks, a branded menu of flavored, dipped, breaded wings — we'll tell you more about it next year once we have a little more learning under our wings (so to speak!).

We are maniacal about improving the customer experience at KFC — in every market, on every visit. Our brand message, our featured food, our store execution will be aimed at WOWing our customers. "There's Fast Food. Then There's KFC."

Cheryl Bachelder
President and Chief Concept Officer
Mark Cosby
Chief Operating Officer

In 2001, the revolutionary Twisted Crust™ pizza featuring a "Rip and Dip" breadstick crust delivered a whole new, fun way to eat pizza. With Twisted Crust, we said to our customers, "Go ahead, play with your food!"

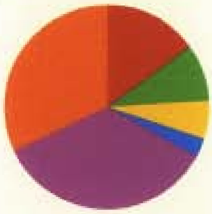


Home meal replacement represents the defining battle in the pizza category with delivery making up 50% of Pizza Hut's annual business.

CUSTOMER MANIA

Pizza QSR Sales

- **Pizza Hut 15%**
- Domino's 9%
- Papa John's 6%
- Little Caesar's 3%
- Regionals 35%
- Independents 32%



SOURCE: CREST
CREST employed new tracking methodology in 2001, therefore percentages are not comparable to prior years' results.

BEST PIZZAS UNDER ONE ROOF

PIZZA HUT People like ordinary pizza. But they love the EXTRAORDINARY pizza they experience from Pizza Hut. Everything Pizza Hut did in 2001 was designed to help us provide that extraordinary pizza experience to every customer, every time, in every restaurant.

Even though same store sales were flat in 2001, we must be doing something right. Consumers continue to recognize the Pizza Hut brand as a "leader," but rate us as more "authentic" "high quality" "up to date" and "energetic" than they did just two years ago.

How did we make it happen? Simple: product quality and innovation, customer mania and rapidly improving assets.

For pizza consumers, more is better. That's why four years ago Pizza Hut made a significant investment in upgrading its products by improving the quality and abundance of its toppings. In 2001, that investment continued to pay dividends. Consumers gave Pizza Hut higher "amount of topping" ratings than our national competitors. And they ranked Pizza Hut #1 on "appeal of menu items."

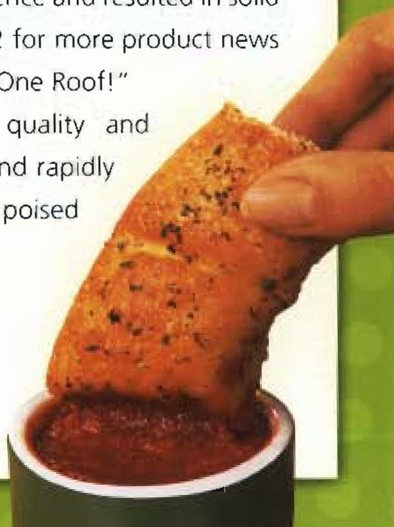
At the same time, we've been maniacal about delivering 100% CHAMPS with a YES! In 2001, Pizza Hut continued to focus on the "S" in CHAMPS, speed of service — with success. We improved our overall "on-time" percentage 3% for the year, and 7% in the fourth quarter, while also improving our productivity.

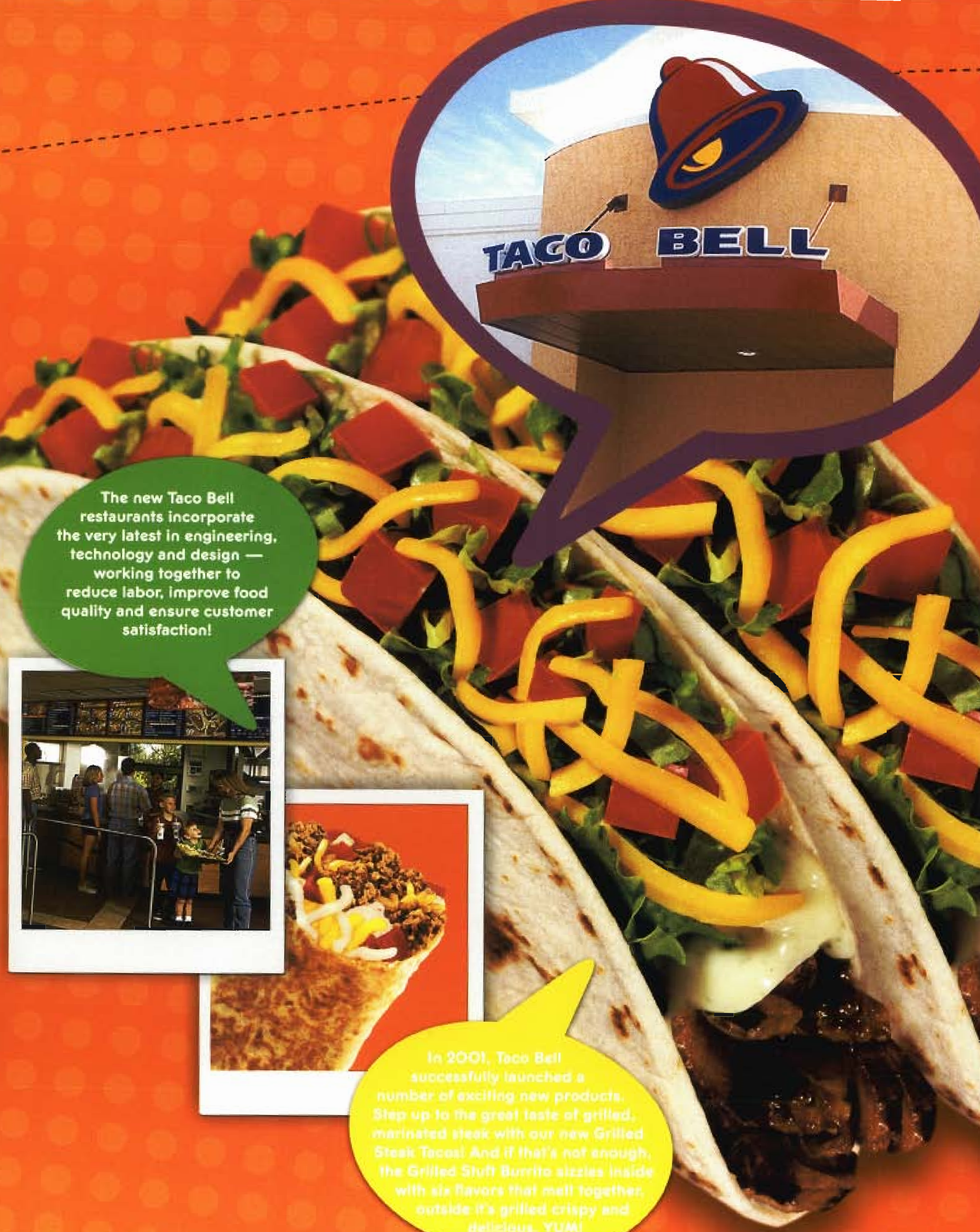
Mike Rawlings
President and Chief Concept Officer
Mike Miles
Chief Operating Officer

While we're not there yet, we're getting closer every day to consistently delivering an extraordinary experience to all of our customers. What's more, almost 25% of company-owned restaurants have either been re-built, or re-imaged with an extraordinary new look, because we know that's important to driving a better customer experience.

Pizza Hut's leadership in product innovation continued in 2001, with the introduction of our highly popular Twisted Crust™ pizza. This unique pizza combined a Pizza Hut pizza twisted with a seasoned breadstick crust — all served with a choice of dipping sauces. Our customers loved the interactivity, innovation and value. The Twisted Crust™ pizza created a whole new pizza eating experience and resulted in solid sales gains. Stay tuned in 2002 for more product news about "The Best Pizzas Under One Roof!"

Leading with product quality and innovation, customer mania and rapidly improving assets, Pizza Hut is poised to deliver a strong 2002.



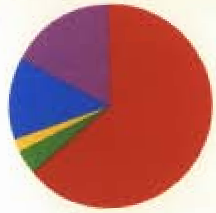


The new Taco Bell restaurants incorporate the very latest in engineering, technology and design — working together to reduce labor, improve food quality and ensure customer satisfaction!

In 2001, Taco Bell successfully launched a number of exciting new products. Step up to the great taste of grilled, marinated steak with our new Grilled Steak Tacos! And if that's not enough, the Grilled Stuft Burrito sizzles inside with six flavors that melt together, outside it's grilled crispy and delicious. YUM!

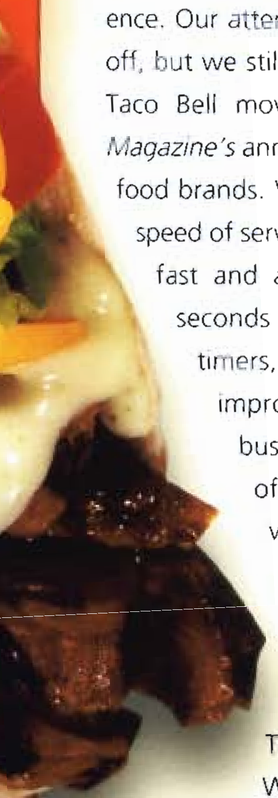
Mexican QSR Sales

- **Taco Bell 64%**
- Del Taco 4%
- Taco John 2%
- Regionals 13%
- Independents 17%



SOURCE: CREST
CREST employed new tracking methodology in 2001, therefore percentages are not comparable to prior years' results.

THINK OUTSIDE THE BUN



TACO BELL After working to regain sales momentum in the first half of the year, we ended 2001 with 14 consecutive weeks of systemwide same-store sales growth, and our highest system CHAMPS scores ever. We attribute this momentum-building performance to two things: our renewed focus to run great restaurants AND our commitment to offer Mexican-inspired, freshly prepared, high quality food that can't be found anywhere other than Taco Bell.

We've worked hard this past year to improve our restaurant operations to give our guests a better experience. Our attention to operational excellence is paying off, but we still have much work to do. We're pleased Taco Bell moved to 5th place from 14th in *QSR Magazine's* annual drive-thru survey of the Top 25 fast-food brands. We accomplished this by improving our speed of service so our customers receive their orders fast and accurately. In fact, we shaved off 24 seconds from our order time, and we're using timers, headsets and tracking systems to improve on that record. Since 65% of our business is drive-thru, we know that speed of service is important. At the same time, we want each and every customer order to be freshly-prepared, at the correct temperature and served with the proper amount of ingredients by friendly, courteous team members. That's 100% CHAMPS with a YES!

We've also aimed to uniquely differentiate the Taco Bell brand from every other restaurant choice with a newly unveiled marketing campaign urging consumers to "Think Outside the Bun" for Taco Bell. We want to jar people out of their 'bun-based' habits with product flavors, aromas and textures they can only get from Taco Bell food. We recently upgraded our beef, beans, tortillas and steak to improve the quality and taste of our most popular menu items. We also introduced three new bold and delicious products — Grilled Stuft Burritos, Grilled Chicken Quesadillas and Grilled Steak Tacos, which drove sales and created new customers for The Bell.

Working as one system with our outstanding franchisees and company restaurant operators, our aim is to continue creating The Bold Choice for consumers by running better restaurants, improving food quality, introducing new product innovations and reinforcing Taco Bell's value leadership.

Emil J. Brolick
President and Chief Concept Officer
Bob Nilsen
Chief Operating Officer

The new Chicken Quesadilla is the hot new "hand-held," with tender all-white-meat chicken and three melted cheeses all folded up in a freshly toasted tortilla.

FINANCIAL CONTENTS

FACTORS AFFECTING COMPARABILITY OF 2001 RESULTS TO 2000 RESULTS

Impact of AmeriServe Bankruptcy Reorganization Process

See Note 22 for a discussion of the impact of the AmeriServe Food Distribution, Inc. ("AmeriServe") bankruptcy reorganization process on the Company.

Franchisee Financial Condition

Like others in the QSR industry, from time to time, some of our franchise operators experience financial difficulties with respect to their franchise operations. During 2001 and 2000, certain of our franchise operators, principally in the Taco Bell system experienced varying degrees of financial problems.

Depending upon the facts and circumstances of each situation, and in the absence of an improvement in the franchisee's business trends, there are a number of potential resolutions of these financial issues. These include a sale of some or all of the operator's restaurants to us or a third party, a restructuring of the operator's business and/or finances, or, in the more unusual cases, bankruptcy of the operator. It is our practice to proactively work with financially troubled franchise operators in an attempt to positively resolve their issues.

Through February 11, 2002, restructurings have been completed for approximately 1,000 Taco Bell franchise restaurants. In connection with these restructurings, Taco Bell has acquired 123 restaurants for approximately $65 million through December 29, 2001. In addition to these acquisitions, Taco Bell purchased 19 restaurants from franchisees for approximately $12 million and simultaneously leased the restaurants back to these franchisees under long-term leases. As part of the restructurings, Taco Bell has committed to fund approximately $29 million of future franchise capital expenditures, principally through leasing arrangements. In the fourth quarter of 2000, Taco Bell established a $15 million loan program to assist certain franchisees. All fundings had been advanced by the end of the first quarter of 2001, and the resulting notes receivable are primarily included in Other assets.

We believe that the recent improvement in business trends at Taco Bell has helped alleviate financial problems in the Taco Bell franchise system which were due to past downturns in sales. Accordingly, though we continue to monitor this situation, we expect restructurings of the remaining Taco Bell franchise restaurants with financial issues to be significantly less in number and costs in 2002.

In 2001 and 2000, the Company charged expenses of $18 million and $26 million, respectively, to ongoing operating profit related to allowances for doubtful franchise and license fee receivables. These costs are reported as franchise and license expenses. On an ongoing basis, we assess our exposure from franchise-related risks, which include estimated uncollectibility of franchise and license receivables, contingent lease liabilities, guarantees to support certain third party financial arrangements of franchisees and potential claims by franchisees. The contingent lease liabilities and guarantees are more fully discussed in the Contingent Liabilities section of Note 22. Although the ultimate impact of these franchise financial issues cannot be predicted with certainty at this time, we have provided for our current estimate of the probable exposure as of December 29, 2001. It is reasonably possible that there will be additional costs; however, these costs are not expected to be material to quarterly or annual results of operations, financial condition or cash flows.

Unusual Items (Income) Expense

We recorded unusual items income of $3 million in 2001 and unusual items expense of $204 million in 2000 and $51 million in 1999. See Note 5 for a detailed discussion of our unusual items (income) expense.

In the fourth quarter of 2001, we recorded expenses of approximately $4 million related to streamlining certain support functions, which included the termination of approximately 90 employees. The reserves established, which primarily related to severance, were almost fully utilized in the first quarter of 2002. We expect to incur additional costs of approximately $2 million in 2002 related to these actions, which will be expensed as incurred. Beginning in 2002, we anticipate savings in general and administrative expenses ("G&A") of approximately $6 million per year, primarily related to reduced compensation. However, we expect to reinvest a substantial portion of these savings in our growth initiatives, including multibranding.

Impact of New Unconsolidated Affiliates

Consistent with our strategy to focus our capital on key international markets, we formed new ventures in Canada and Poland with our largest franchisee in each market. The venture in Canada was formed in the third quarter of 2000 and the venture in Poland was effective in the first quarter of 2001. The Canadian venture operates over 700 stores and the Poland venture operates approximately 100 stores. We did not record any gain or loss on the transfer of assets to these new ventures.

Previously, the results from the restaurants we contributed to these ventures were consolidated. The impact of these transactions on operating results is similar to the impact of our refranchising activities, which is described in the Store Portfolio Strategy section below. Consequently, these transactions resulted in a decline in our Company sales, restaurant margin dollars and G&A as well as higher franchise fees. We also record equity income (losses) from investments in unconsolidated affiliates ("equity income") and, in Canada, higher franchise fees since the royalty rate was increased for those stores contributed by our partner to the venture. The formation of these ventures did not have a significant net impact on ongoing operating profit in 2001.

Management's Discussion and Analysis

INTRODUCTION

TRICON Global Restaurants, Inc. and Subsidiaries (collectively referred to as "TRICON" or the "Company") is comprised of the worldwide operations of KFC, Pizza Hut and Taco Bell ("the Concepts") and is the world's largest quick service restaurant ("QSR") company based on the number of system units. Separately, each brand ranks in the top ten among QSR chains in U.S. system sales and units. Our 10,927 international units make us the second largest QSR company outside the U.S. TRICON became an independent, publicly owned company on October 6, 1997 (the "Spin-off Date") via a tax-free distribution of our Common Stock (the "Distribution" or "Spin-off") to the shareholders of our former parent, PepsiCo, Inc. ("PepsiCo").

TRICON has numerous registered trademarks and service marks. We believe that many of these marks, including our Kentucky Fried Chicken®, KFC®, Pizza Hut® and Taco Bell® trademarks, have significant value and are materially important to our business. Our policy is to pursue registration of important trademarks whenever feasible and to oppose vigorously any infringement of our trademarks. From time to time we may become involved in litigation to defend and protect our use of such registered marks. The use of our trademarks by franchisees and licensees has been authorized in KFC, Pizza Hut and Taco Bell franchise and license agreements. Under current law and with proper use, our rights in trademarks can generally last indefinitely. We also have certain patents on restaurant equipment which, while valuable, are not material to our business.

We are the largest QSR Company based on system units.

Throughout Management's Discussion and Analysis ("MD&A"), we make reference to ongoing operating profit which represents our operating profit excluding the impact of facility actions net loss (gain), unusual items income (expense) and our accounting and human resources policy changes in 1999 (the "1999 accounting changes"). See Note 5 to the Consolidated Financial Statements for a detailed discussion of these exclusions. We use ongoing operating profit as a key performance measure of our results of operations for purposes of evaluating performance internally and as the base to forecast future performance. Ongoing operating profit is not a measure defined in accounting principles generally accepted in the U.S. and should not be considered in isolation or as a substitution for measures of performance in accordance with accounting principles generally accepted in the U.S.

In 2001, our international business, Tricon Restaurants International ("TRI" or "International") accounted for 35% of system sales, 31% of revenues and 31% of ongoing operating profit excluding unallocated and corporate expenses and foreign exchange net loss. We anticipate that, despite the inherent risks and typically higher general and administrative expenses required by international operations, we will continue to invest in key international markets with substantial growth potential.

This MD&A should be read in conjunction with our Consolidated Financial Statements on pages 38 through 64 and the Cautionary Statements on page 37. All Note references herein refer to the Notes to the Consolidated Financial Statements on pages 42 through 64. Tabular amounts are displayed in millions except per share and unit count amounts, or as otherwise specifically identified.

CRITICAL ACCOUNTING POLICIES

Our reported results are impacted by the application of certain accounting policies that required us to make subjective or complex judgments. These judgments involve estimations about the effect of matters that are inherently uncertain and may significantly impact our quarterly or annual results of operations, financial condition or cash flows. Changes in the estimates and judgments could significantly affect our results of operations, financial condition and cash flows in future years. We believe that our most significant policies require:

- Estimation of cash flows associated with the disposition of restaurants, and the impairment of long-lived assets and investments in unconsolidated affiliates. See Note 2 for a further discussion.
- Determination of the appropriate allowances and reserves associated with franchise and license receivables and contingent liabilities. See Note 2 for a discussion of the allowance for uncollectible franchise and license receivables and Note 22 for a discussion of franchise contingent liabilities.
- Estimation, using actuarially-determined methods, of our self-insured losses under our property and casualty loss programs. See Note 22 for a discussion of our insurance programs.
- Determination of the appropriate valuation allowances for deferred tax assets and reserves for potential tax exposures. See Note 20 for a discussion of income taxes.

Impact of the Consolidation of an Unconsolidated Affiliate

At the beginning of 2001, we consolidated a previously unconsolidated affiliate in our Consolidated Financial Statements as a result of a change in our intent to temporarily retain control of this affiliate. This change resulted in higher Company sales, restaurant margin dollars and G&A as well as decreased franchise fees and equity income. This previously unconsolidated affiliate operates over 100 stores.

Fifty-third Week in 2000

Our fiscal calendar results in a fifty-third week every 5 or 6 years. Fiscal year 2000 included a fifty-third week in the fourth quarter. The estimated favorable impact in net income was $10 million or $0.07 per diluted share in 2000. The following table summarizes the estimated favorable/(unfavorable) impact of the fifty-third week on system sales, revenues and ongoing operating profit:

	U.S.	International	Unallocated	Total
System sales	$230	$65	$—	$295
Revenues				
Company sales	$ 58	$18	$—	$ 76
Franchise fees	9	2	—	11
Total revenues	$ 67	$20	$—	$ 87
Ongoing operating profit				
Franchise fees	$ 9	$ 2	$—	$ 11
Restaurant margin	11	4	—	15
General and administrative expenses	(3)	(2)	(2)	(7)
Ongoing operating profit	$ 17	$ 4	$ (2)	$ 19

Store Portfolio Strategy

Since 1995, we have been strategically reducing our share of total system units by selling Company restaurants to existing and new franchisees where their expertise can generally be leveraged to improve our overall operating performance, while retaining Company ownership of key U.S. and International markets. This portfolio-balancing activity has reduced our reported revenues and restaurant profits and has increased the importance of system sales as a key performance measure. We substantially completed our refranchising program in 2001.

The following table summarizes our refranchising activities:

	2001	2000	1999
Number of units refranchised	**233**	757	1,435
Refranchising proceeds, pre-tax	**$ 111**	$ 381	$ 916
Refranchising net gains, pre-tax[(a)]	**$ 39**	$ 200	$ 422

(a) 2001 includes $12 million of previously deferred refranchising gains and a charge of $11 million to mark to market the net assets of the Singapore business, which is held for sale.

In addition to our refranchising program, we have been closing restaurants over the past several years. Restaurants closed include poor performing restaurants, restaurants that are relocated to a new site within the same trade area or U.S. Pizza Hut delivery units consolidated with a new or existing dine-in traditional store within the same trade area.

The following table summarizes Company store closure activities:

	2001	2000	1999
Number of units closed	**270**	208	301
Store closure costs[(a)]	**$ 17**	$ 10	$ 13
Impairment charges for stores to be closed	**$ 5**	$ 6	$ 12

(a) Includes favorable adjustments to our 1997 fourth quarter charge of $9 million in 1999. See Note 5 for a discussion of these adjustments.

The impact on ongoing operating profit arising from our refranchising and store closure initiatives as well as the contribution of Company stores to new unconsolidated affiliates as described in the Impact of New Unconsolidated Affiliates section represents the net of (a) the estimated reduction in Company sales, restaurant margin and G&A; (b) the estimated increase in franchise fees; and (c) the estimated change in equity income. The amounts presented below reflect the estimated impact from stores that were operated by us for all or some portion of the respective previous year and were no longer operated by us as of the last day of the respective year.

The following table summarizes the estimated impact on revenue of refranchising, store closures and the contribution of Company stores to unconsolidated affiliates:

	2001		
	U.S.	**International**	**Worldwide**
Reduced sales	**$ (483)**	**$ (243)**	**$ (726)**
Increased franchise fees	**21**	**13**	**34**
Reduction in total revenues	**$ (462)**	**$ (230)**	**$ (692)**

	2000		
	U.S.	International	Worldwide
Reduced sales	$ (838)	$ (246)	$ (1,084)
Increased franchise fees	39	13	52
Reduction in total revenues	$ (799)	$ (233)	$ (1,032)

The following table summarizes the estimated impact on ongoing operating profit of refranchising, store closures and the contribution of Company stores to unconsolidated affiliates:

	2001			2000		
	U.S.	International	Worldwide	U.S.	International	Worldwide
Decreased restaurant margin	$ (67)	$ (25)	$ (92)	$ (90)	$ (25)	$ (115)
Increased franchise fees	21	13	34	39	13	52
Decreased G&A	5	13	18	11	6	17
Decreased equity income	—	(5)	(5)	—	(1)	(1)
Decrease in ongoing operating profit	$ (41)	$ (4)	$ (45)	$ (40)	$ (7)	$ (47)

WORLDWIDE RESULTS OF OPERATIONS

	2001	% B(W) vs. 2000	2000	% B(W) vs. 1999
System sales[a]	$ 22,328	1	$ 22,159	2
Company sales	$ 6,138	(3)	$ 6,305	(11)
Franchise and license fees	815	3	788	9
Revenues	$ 6,953	(2)	$ 7,093	(9)
Company restaurant margin	$ 906	(5)	$ 954	(13)
% of Company sales	14.8%	(0.3)ppts.	15.1%	(0.3)ppts.
Ongoing operating profit	$ 889	—	$ 888	1
Facility actions net (loss) gain	(1)	NM	176	(54)
Unusual items income (expense)	3	NM	(204)	NM
Operating profit	891	4	860	(31)
Interest expense, net	158	10	176	13
Income tax provision	241	11	271	34
Net income	$ 492	19	$ 413	(34)
Diluted earnings per share	$ 3.24	17	$ 2.77	(29)

(a) Represents combined sales of Company, unconsolidated affiliate, franchise and license restaurants.

WORLDWIDE RESTAURANT UNIT ACTIVITY

	Company	Unconsolidated Affiliates	Franchisees	Licensees	Total
Balance at Dec. 25, 1999	6,981	1,178	18,414	3,409	29,982
New Builds	370	108	960	324	1,762
Refranchising	(757)	(9)	775	(9)	—
Closures	(208)	(53)	(505)	(561)	(1,327)
Other[a]	(263)	620	(357)	—	—
Balance at Dec. 30, 2000	6,123	1,844	19,287	3,163	30,417
New Builds	521	150	818	190	1,679
Acquisitions	361	(28)	(328)	(5)	—
Refranchising	(233)	(20)	253	—	—
Closures	(270)	(39)	(741)	(557)	(1,607)
Other[a]	(67)	93	(26)	—	—
Balance at Dec. 29, 2001	**6,435**	**2,000**	**19,263**	**2,791**	**30,489**
% of Total	**21%**	**7%**	**63%**	**9%**	**100%**

(a) Primarily includes 320 Company stores and 329 franchisee stores contributed to an unconsolidated affiliate in 2000 and 52 Company stores and 41 franchisee stores contributed to an unconsolidated affiliate in 2001.

WORLDWIDE SYSTEM SALES

System sales increased approximately $169 million or 1% in 2001, after a 2% unfavorable impact from foreign currency translation. Excluding the unfavorable impact of foreign currency translation and lapping the fifty-third week in 2000, system sales increased 5%. The increase was driven by new unit development and same store sales growth, partially offset by store closures.

System sales increased $397 million or 2% in 2000, after a 1% unfavorable impact from foreign currency translation. Excluding the unfavorable impact of foreign currency translation and the favorable impact of the fifty-third week, system sales increased 1%. This increase was driven by new unit development, partially offset by store closures and same store sales declines.

WORLDWIDE REVENUES

Company sales decreased $167 million or 3% in 2001, after a 2% unfavorable impact from foreign currency translation. Excluding the unfavorable impact of foreign currency translation and lapping the fifty-third week in 2000, Company sales were flat. An increase due to new unit development was offset by refranchising.

Company sales decreased $794 million or 11% in 2000. Excluding the favorable impact from the fifty-third week, Company sales decreased 12%. The decrease was primarily due to refranchising, store closures, the contribution of Company stores to a new unconsolidated affiliate and same store sales declines. This decrease was partially offset by new unit development.

Franchise and license fees increased $27 million or 3% in 2001, after a 2% unfavorable impact from foreign currency translation. Excluding the unfavorable impact of foreign currency translation and lapping the fifty-third week in 2000, franchise and license fees increased 7%. The increase was driven by new unit development, units acquired from us and same store sales growth. This increase was partially offset by store closures.

Franchise and license fees increased $65 million or 9% in 2000. The increase was primarily driven by units acquired from us and new unit development partially offset by store closures and same store sales declines in the U.S. The unfavorable impact of foreign currency translation was essentially offset by the favorable impact of the fifty-third week.

We reduced G&A expenses by $34 million in 2001.

WORLDWIDE COMPANY RESTAURANT MARGIN

	2001	2000	1999
Company sales	**100.0%**	100.0%	100.0%
Food and paper	**31.1**	30.8	31.5
Payroll and employee benefits	**27.1**	27.7	27.6
Occupancy and other operating expenses	**27.0**	26.4	25.5
Company restaurant margin	**14.8%**	15.1%	15.4%

Restaurant margin as a percentage of sales decreased approximately 30 basis points in 2001. U.S. restaurant margin was flat and International restaurant margin declined approximately 120 basis points.

Restaurant margin as a percentage of sales decreased approximately 25 basis points in 2000, including the unfavorable impact of 15 basis points from lapping the 1999 accounting changes. U.S. restaurant margin declined approximately 55 basis points and International restaurant margin increased approximately 65 basis points.

WORLDWIDE GENERAL AND ADMINISTRATIVE EXPENSES

G&A decreased $34 million or 4% in 2001. Excluding the favorable impact of lapping the fifty-third week in 2000, G&A decreased 3%. The decrease was driven by lower corporate and project spending, the formation of unconsolidated affiliates and refranchising. The decrease was partially offset by higher compensation costs.

G&A decreased $65 million or 7% in 2000. Excluding the unfavorable impact from lapping the 1999 accounting changes, G&A decreased 9%. The decrease was primarily due to lower incentive compensation expense and Year 2000 costs as well as the favorable impact of refranchising and store closures. Reduced spending on conferences also contributed to the decline. G&A included Year 2000 spending of approximately $2 million in 2000 as compared to approximately $30 million in 1999.

WORLDWIDE FRANCHISE AND LICENSE EXPENSES

Franchise and license expenses increased $10 million or 20% in 2001. The increase was primarily due to support costs related to the financial restructuring of certain Taco Bell franchisees. The increase was partially offset by lower allowances for doubtful franchise and license fee receivables.

Franchise and license expenses increased $24 million or 93% in 2000. The increase was driven by allowances for doubtful franchise and license fee receivables, principally at Taco Bell.

WORLDWIDE OTHER (INCOME) EXPENSE

	2001	2000	1999
Equity income	$ (26)	$ (25)	$ (19)
Foreign exchange net loss	3	—	3
Other (income) expense	$ (23)	$ (25)	$ (16)

Equity income increased $1 million or 3% in 2001, after a 6% unfavorable impact from foreign currency translation. The increase was driven by improved results of our unconsolidated affiliate in the United Kingdom. The increase was offset by equity losses from Poland and the consolidation of a previously unconsolidated affiliate.

Equity income increased $6 million or 32% in 2000. The increase was primarily due to improved results of our unconsolidated affiliates in Japan, the United Kingdom and China.

WORLDWIDE FACILITY ACTIONS NET LOSS (GAIN)

We recorded facility actions net loss of $1 million in 2001 and facility actions net gain of $176 million in 2000 and $381 million in 1999. See the Store Portfolio Strategy section for more detail of our refranchising and closure activities and Note 5 for a summary of the components of facility actions net loss (gain) by reportable operating segment.

WORLDWIDE ONGOING OPERATING PROFIT

	2001	% B(W) vs. 2000	2000	% B(W) vs. 1999
United States	$ 722	(3)	$ 742	(9)
International	318	3	309	16
Unallocated and corporate expenses	(148)	9	(163)	16
Foreign exchange net loss	(3)	NM	—	NM
Ongoing operating profit	$ 889	—	$ 888	1

The changes in U.S. and International ongoing operating profit for 2001 and 2000 are discussed in the respective sections.

Unallocated and corporate expenses decreased $15 million or 9% in 2001. Excluding the favorable impact of lapping the fifty-third week in 2000, G&A decreased 8%. The decline was primarily due to lower corporate and project spending partially offset by higher incentive and deferred compensation.

Excluding the unfavorable impact from lapping the 1999 accounting changes, unallocated and corporate expenses decreased $31 million or 16% in 2000. The decline was primarily due to lower Year 2000 spending and lower incentive compensation expense.

WORLDWIDE INTEREST EXPENSE, NET

	2001	2000	1999
Interest expense	$ 172	$ 190	$ 218
Interest income	(14)	(14)	(16)
Interest expense, net	$ 158	$ 176	$ 202

Net interest expense decreased $18 million or 10% in 2001. The decrease was primarily due to a decrease in our average interest rates.

Net interest expense decreased $26 million or 13% in 2000. The decline was due to lower average debt outstanding in 2000 as compared to 1999, partially offset by an increase in interest rates on our variable rate debt. As discussed in Note 22, interest expense on incremental borrowings related to the AmeriServe bankruptcy reorganization process of $9 million has been included in unusual items expense in 2000.

Net interest expense decreased 10% in 2001.

WORLDWIDE INCOME TAXES

	2001	2000	1999
Reported			
Income taxes	$ 241	$ 271	$ 411
Effective tax rate	32.8%	39.6%	39.5%
Ongoing[a]			
Income taxes	$ 243	$ 268	$ 267
Effective tax rate	33.1%	37.7%	39.3%

(a) Excludes the effects of facility actions net (loss) gain, unusual items (income) expense and the 1999 accounting changes. See Note 5 for a discussion of these items.

The following table reconciles the U.S. federal statutory tax rate to our ongoing effective tax rate:

	2001	2000	1999
U.S. federal statutory tax rate	35.0%	35.0%	35.0%
State income tax, net of federal tax benefit	1.9	1.8	2.3
Foreign and U.S. tax effects attributable to foreign operations	0.2	(0.4)	4.6
Adjustments relating to prior years	(2.2)	5.3	(0.7)
Valuation allowance reversals	(1.7)	(4.0)	(2.0)
Other, net	(0.1)	—	0.1
Ongoing effective tax rate	33.1%	37.7%	39.3%

The 2001 ongoing effective tax rate decreased 4.6 percentage points to 33.1%. The decrease in the ongoing effective tax rate was primarily due to adjustments related to prior years, partially offset by reduced valuation allowance reversals. See Note 20 for a discussion of valuation allowances.

In 2001, the effective tax rate attributable to foreign operations was slightly higher than the U.S. federal statutory rate because losses of foreign operations for which no benefit could be currently recognized and other adjustments more than offset the effect of claiming credit against our U.S. income tax liability for foreign taxes paid.

The 2000 ongoing effective tax rate decreased 1.6 percentage points to 37.7%. The decrease in the ongoing effective tax rate was primarily due to a reduction in the tax on our international operations, including the initial benefits of becoming eligible in 2000 to claim substantially all of our available foreign income tax credits for foreign taxes paid in 2000 against our U.S. income tax liability, and incremental valuation allowance reversals. This decrease was partially offset by adjustments relating to prior years.

In 2000, the effective tax rate attributable to foreign operations was lower than the U.S. federal statutory rate due to our ability to claim credit against our U.S. income tax liability for foreign taxes paid. The effective tax rate attributable to foreign operations in 1999 was higher than the U.S. federal statutory tax rate. This was primarily due to foreign tax rate differentials, including foreign withholding tax paid without benefit of the related foreign tax credit for U.S. income tax purposes and losses of foreign operations for which no tax benefit could be currently recognized.

EARNINGS PER SHARE

The components of earnings per common share ("EPS") were as follows:

	2001[a]		2000[a]	
	Diluted	**Basic**	Diluted	Basic
Ongoing operating earnings	**$ 3.21**	**$ 3.33**	$ 2.98	$ 3.02
Facility actions net gain	**0.02**	**0.02**	0.66	0.67
Unusual items	**0.01**	**0.01**	(0.87)	(0.88)
Net income	**$ 3.24**	**$ 3.36**	$ 2.77	$ 2.81

(a) See Note 4 for the number of shares used in these calculations.

Ongoing operating EPS increased 8%.

U.S. RESULTS OF OPERATIONS

	2001	**% B(W) vs. 2000**	2000	% B(W) vs. 1999
System sales	**$ 14,596**	**1**	$ 14,514	—
Company sales	**$ 4,287**	**(5)**	$ 4,533	(14)
Franchise and license fees	**540**	**2**	529	7
Revenues	**$ 4,827**	**(5)**	$ 5,062	(12)
Company restaurant margin	**$ 649**	**(5)**	$ 687	(17)
% of Company sales	**15.2%**	**—**	15.2%	(0.5)ppts.
Ongoing operating profit	**$ 722**	**(3)**	$ 742	(9)

U.S. RESTAURANT UNIT ACTIVITY

	Company	Franchisees	Licensees	Total
Balance at Dec. 25, 1999	4,984	12,110	3,100	20,194
New Builds	143	366	303	812
Refranchising	(672)	681	(9)	—
Closures	(153)	(295)	(521)	(969)
Balance at Dec. 30, 2000	4,302	12,862	2,873	20,037
New Builds	183	265	182	630
Acquisitions	136	(133)	(3)	—
Refranchising	(155)	155	—	—
Closures	(182)	(416)	(507)	(1,105)
Balance at Dec. 29, 2001	**4,284**	**12,733**	**2,545**	**19,562**
% of Total	**22%**	**65%**	**13%**	**100%**

U.S. SYSTEM SALES

System sales increased $82 million or 1% in 2001. Excluding the unfavorable impact of lapping the fifty-third week in 2000, system sales increased 2%. The increase was driven by new unit development and same store sales growth at KFC and Pizza Hut, partially offset by store closures.

System sales were flat in 2000. Excluding the favorable impact of the fifty-third week, system sales decreased 2%. The decrease was due to same stores sales declines at Taco Bell and KFC as well as store closures, partially offset by new unit development.

U.S. REVENUES

Company sales decreased $246 million or 5% in 2001. Excluding the unfavorable impact of lapping the fifty-third week in 2000, Company sales decreased 4%. The decrease was driven by refranchising, partially offset by new unit development.

For 2001, blended Company same store sales for our three Concepts were up 1% on a comparable fifty-two week basis. An increase in the average guest check was partially offset by transaction declines. Same store sales at KFC were up 3%, primarily due to an increase in transactions. Same store sales at both Pizza Hut and Taco Bell were flat. A 2% increase in the average guest check at Pizza Hut and a 3% increase in the average guest check at Taco Bell were both fully offset by transaction declines.

Company sales decreased $720 million or 14% in 2000. Excluding the favorable impact of the fifty-third week, Company sales decreased 15%. The decrease was primarily due to refranchising, store closures and same store sales declines. The decrease was partially offset by new unit development.

For 2000, blended Company same store sales for our three Concepts decreased 2% on a comparable basis. A decline in transactions was partially offset by an increase in the average guest check. Same store sales at Pizza Hut increased 1%. A 3% increase in the average guest check was partially offset by transaction declines. Same store sales at KFC decreased 3%, primarily due to transaction declines. Same store sales at Taco Bell decreased 5% as a result of transaction declines.

Franchise and license fees grew $11 million or 2% in 2001. Excluding the unfavorable impact of lapping the fifty-third week in 2000, franchise and license fees increased 4%. The increase was driven by units acquired from us and new unit development, partially offset by store closures.

Franchise and license fees increased $34 million or 7% in 2000. Excluding the favorable impact from the fifty-third week, franchise and license fees increased 5%. The increase was driven by units acquired from us and new unit development, partially offset by same store sales declines and store closures.

U.S. COMPANY RESTAURANT MARGIN

	2001	2000	1999
Company sales	**100.0%**	100.0%	100.0%
Food and paper	**28.6**	28.6	30.0
Payroll and employee benefits	**30.6**	30.8	29.8
Occupancy and other operating expenses	**25.6**	25.4	24.5
Company restaurant margin	**15.2%**	15.2%	15.7%

Restaurant margin as a percentage of sales was flat in 2001. Favorable pricing and product mix was offset by increases in occupancy and other costs, product costs and wage rates. The increase in product costs was primarily driven by cheese costs.

Restaurant margin as a percentage of sales decreased 55 basis points in 2000, including a decline of approximately 25 basis points resulting from lapping the 1999 accounting changes. The remaining decrease primarily resulted from a shift to lower margin chicken sandwiches at KFC, volume declines at Taco Bell and the absence of favorable 1999 insurance-related adjustments. The decrease was partially offset by the favorable impact of refranchising and pricing and product mix. Favorable product costs, primarily cheese, were almost fully offset by higher occupancy and other costs and higher wage rates.

U.S. ONGOING OPERATING PROFIT

Ongoing operating profit decreased $20 million or 3% in 2001. Excluding the unfavorable impact of lapping the fifty-third week in 2000, ongoing operating profit decreased 1%. The decrease was driven by the unfavorable impact of refranchising and store closures, higher restaurant operating costs and higher franchise support costs related to the restructuring of certain Taco Bell franchisees. The decrease was partially offset by favorable pricing and product mix and new unit development.

Ongoing operating profit decreased $71 million or 9% in 2000. Excluding the favorable impact of the fifty-third week, ongoing operating profit decreased 12%. The decrease was primarily due to same store sales declines, the unfavorable impact of refranchising and store closures and higher restaurant operating costs. The decrease was partially offset by new unit development and reduced G&A expenses. The decrease in G&A expenses was largely due to lower incentive compensation, decreased professional fees and lower spending on conferences at Pizza Hut and Taco Bell. The G&A declines were partially offset by higher franchise-related expenses, primarily allowances for doubtful franchise and license fee receivables.

INTERNATIONAL RESULTS OF OPERATIONS

	2001	% B(W) vs. 2000	2000	% B(W) vs. 1999
System sales	**$7,732**	**1**	$7,645	6
Company sales	**$1,851**	**5**	$1,772	(4)
Franchise and license fees	**275**	**6**	259	14
Revenues	**$2,126**	**5**	$2,031	(2)
Company restaurant margin	**$ 257**	**(4)**	$ 267	—
% of Company sales	**13.9%**	**(1.2)ppts.**	15.1%	0.7ppts.
Ongoing operating profit	**$ 318**	**3**	$ 309	16

Before currency impact, International Company sales increased 10%.

INTERNATIONAL RESTAURANT UNIT ACTIVITY

	Company	Unconsolidated Affiliates	Franchisees	Licensees	Total
Balance at Dec. 25, 1999	1,997	1,178	6,304	309	9,788
New Builds	227	108	594	21	950
Refranchising	(85)	(9)	94	—	—
Closures	(55)	(53)	(210)	(40)	(358)
Other[a]	(263)	620	(357)	—	—
Balance at Dec. 30, 2000	1,821	1,844	6,425	290	10,380
New Builds	338	150	553	8	1,049
Acquisitions	225	(28)	(195)	(2)	—
Refranchising	(78)	(20)	98	—	—
Closures	(88)	(39)	(325)	(50)	(502)
Other[a]	(67)	93	(26)	—	—
Balance at Dec. 29, 2001	**2,151**	**2,000**	**6,530**	**246**	**10,927**
% of Total	**20%**	**18%**	**60%**	**2%**	**100%**

(a) Primarily includes 320 Company stores and 329 franchisee stores contributed to an unconsolidated affiliate in 2000 and 52 Company stores and 41 franchisee stores contributed to an unconsolidated affiliate in 2001.

INTERNATIONAL SYSTEM SALES

System sales increased approximately $87 million or 1% in 2001, after a 7% unfavorable impact from foreign currency translation. Excluding the unfavorable impact of foreign currency translation and lapping the fifty-third week in 2000, system sales increased 9%. The increase was driven by new unit development and same store sales growth, partially offset by store closures.

System sales increased $399 million or 6% in 2000, after a 2% unfavorable impact from foreign currency translation. Excluding the unfavorable impact of foreign currency translation and the favorable impact of the fifty-third week, system sales increased 7%. This increase was driven by new unit development and same store sales growth, partially offset by store closures.

INTERNATIONAL REVENUES

Company sales increased $79 million or 5% in 2001, after a 5% unfavorable impact from foreign currency translation. Excluding the unfavorable impact of foreign currency translation and lapping the fifty-third week in 2000, Company sales increased 11%. The increase was driven by new unit development and acquisitions of restaurants from franchisees. The increase was partially offset by the contribution of Company stores to new unconsolidated affiliates.

Company sales decreased $74 million or 4% in 2000, after a 3% unfavorable impact from foreign currency translation. Excluding the unfavorable impact of foreign currency translation and the favorable impact of the fifty-third week, Company sales decreased 2%. The decrease was primarily due to refranchising, the contribution of Company stores to an unconsolidated affiliate and store closures. The decrease was partially offset by new unit development and same store sales growth.

Franchise and license fees increased $16 million or 6% in 2001, after a 6% unfavorable impact from foreign currency translation. Excluding the unfavorable impact of foreign currency translation and lapping the fifty-third week in 2000, franchise and license fees increased 13%. The increase was driven by new unit development, same store sales growth and units contributed to unconsolidated affiliates. The increase was partially offset by store closures.

Franchise and license fees increased approximately $31 million or 14% in 2000, after a 3% unfavorable impact from foreign currency translation. Excluding the unfavorable impact of foreign currency translation and the favorable impact from the fifty-third week, franchise and license fees increased 16%. The increase was driven by new unit development, units acquired from us and same store sales growth. The increase was partially offset by store closures.

INTERNATIONAL COMPANY RESTAURANT MARGIN

	2001	2000	1999
Company sales	**100.0%**	100.0%	100.0%
Food and paper	**36.9**	36.5	36.0
Payroll and employee benefits	**19.1**	19.5	21.0
Occupancy and other operating expenses	**30.1**	28.9	28.6
Company restaurant margin	**13.9%**	15.1%	14.4%

Restaurant margin as a percentage of sales decreased approximately 120 basis points in 2001. This decrease was primarily attributable to higher operating costs and the acquisition of below average margin stores from franchisees. The decrease was partially offset by favorable pricing and product mix.

Restaurant margin as a percentage of sales increased 65 basis points in 2000. The increase was primarily attributable to the favorable impact of refranchising, the contribution of Company stores with below average margins to a new unconsolidated affiliate and store closures.

INTERNATIONAL ONGOING OPERATING PROFIT

Ongoing operating profit increased $9 million or 3%, after a 7% unfavorable impact from foreign currency translation. Excluding the unfavorable impact of foreign currency translation and lapping the fifty-third week in 2000, ongoing operating profit increased 12%. The increase was driven by new unit development and same store sales growth, partially offset by higher restaurant operating costs.

Ongoing operating profit increased $44 million or 16% in 2000, after a 2% unfavorable impact from foreign currency translation. Excluding the unfavorable impact of foreign currency translation and the favorable impact of the fifty-third week, ongoing operating profit increased 16%. The increase was primarily due to new unit development.

CONSOLIDATED CASH FLOWS

Net cash provided by operating activities increased $341 million to $832 million. The increase was primarily due to the collection of receivables established in 2000 and the absence of the unusual charges taken in 2000 related to the AmeriServe bankruptcy reorganization process. Excluding the AmeriServe-related items, cash provided by operating activities was $704 million versus $734 million in 2000. See Note 22 for a discussion of the AmeriServe bankruptcy reorganization process.

In 2000, net cash provided by operating activities decreased $74 million to $491 million. The decrease was primarily due to unusual charges related to the AmeriServe bankruptcy reorganization process and the related use of working capital. The primary driver of the net use of working capital was an increase in receivables arising from the AmeriServe bankruptcy reorganization process, which resulted in a net use of working capital of approximately $135 million. Excluding these AmeriServe-related items, cash from operating activities increased by $143 million to $734 million. This increase was driven by a lower reduction of our working capital deficit than in 1999.

Our working capital deficit, excluding cash and cash equivalents, short-term investments and short-term borrowings, is typical of restaurant operations where a majority of sales are for cash while payment to suppliers carry longer payment terms, generally from 10–30 days. The lower working capital deficit reduction in 2000 is the result of refranchising significantly fewer restaurants in 2000 versus 1999, partially offset by a change in payment terms in our food and supply distribution agreement from 30 to 15 days.

Net cash used in investing activities was $503 million versus $237 million in 2000. The increase in cash used was primarily due to lower gross refranchising proceeds as a result of selling fewer restaurants in 2001 and increased acquisition and capital spending. The increase was partially offset by lapping the funding of a debtor-in-possession revolving credit facility to AmeriServe in 2000.

In 2000, net cash used in investing activities was $237 million versus net cash provided of $522 million in 1999. The decline in cash flow from investing activities was primarily due to lower gross refranchising proceeds as a result of selling fewer restaurants to franchisees in 2000 versus 1999, increased capital spending related to development and funding of a debtor-in-possession revolving credit facility to AmeriServe.

Although we report gross proceeds in our Consolidated Statements of Cash Flows, we also consider refranchising proceeds on an "after-tax" basis. We define after-tax proceeds as gross refranchising proceeds less the settlement of working capital liabilities (primarily accounts payable and property taxes) related to the units refranchised and payment of taxes on the gains. The after-tax proceeds can be used to pay down debt or repurchase shares. After-tax proceeds were approximately $90 million in 2001 which reflects a 65% decrease from 2000. This decrease was due to the refranchising of fewer restaurants in 2001 versus 2000. After-tax proceeds were approximately $261 million in 2000, a 62% decrease versus 1999. This decrease was also due to refranchising fewer restaurants in 2000 than 1999.

Net cash used in financing activities was $352 million compared to $207 million in 2000. The increase in cash used is primarily due to higher repayment of debt partially offset by fewer shares repurchased in 2001 compared to 2000.

We repaid $300 million of debt in 2001.

In 2000, net cash used in financing activities decreased to $207 million versus $1.1 billion in 1999 due to lower debt repayments. Less cash was available for financing activities in 2000 due to lower cash flow from operating and investing activities, as described above.

In February 2001, our Board of Directors authorized a new share repurchase program. This program authorizes us to repurchase, through February 14, 2003, up to $300 million of our outstanding common stock (excluding applicable transaction fees). During 2001, we repurchased approximately 2.4 million shares for approximately $100 million. See Note 19 for a discussion of the share repurchase program.

In 1999, our Board of Directors authorized the repurchase of up to $350 million of our outstanding common stock (excluding applicable transaction fees). This share repurchase program was completed in 2000. During 2000, we repurchased over 6.4 million shares for approximately $216 million. See Note 19 for a discussion of the share repurchase program.

FINANCING ACTIVITIES

As more fully discussed in Note 12, our primary bank credit agreement, as amended, is comprised of a senior, unsecured Term Loan Facility and a $1.75 billion senior unsecured Revolving Credit Facility, which was reduced from $3 billion as part of the amendment discussed below (collectively referred to as the "Credit Facilities"). The Credit Facilities mature on October 2, 2002. At December 29, 2001, we had unused Revolving Credit Facility borrowings available aggregating $2.7 billion, net of outstanding letters of credit of $0.2 billion.

Amounts outstanding under our Credit Facilities of $536 million at December 29, 2001 have been classified as short-term borrowings in the Consolidated Balance Sheet due to the October 2002 maturity. We are currently in negotiations to replace the Credit Facilities prior to the maturity date with new borrowings, which will reflect the market conditions and terms available at that time.

The Credit Facilities subject us to certain mandatory principal repayment obligations, including prepayment events as defined in the credit agreement. Interest on the Credit Facilities is based principally on the London Interbank Offered Rate ("LIBOR") plus a variable margin factor; therefore, our borrowing costs fluctuate depending upon the volatility in LIBOR.

On February 22, 2002, we entered into an agreement to amend certain terms of our Credit Facilities. This amendment provides for, among other things, additional flexibility with respect to acquisitions and other investments. In addition, we voluntarily reduced our maximum borrowings under the Revolving Credit Facility from $3.0 billion to $1.75 billion. As a result of this amendment, we capitalized debt costs of approximately $1.5 million. These costs will be amortized into interest expense over the remaining life of the Credit Facilities.

We issued $850 million of unsecured Notes in 2001. The issuance included $200 million of 8.5% Senior Unsecured Notes due April 15, 2006 and $650 million of 8.875% Senior Unsecured Notes due April 15, 2011. We used the proceeds, net of issuance costs, to reduce amounts outstanding under the Credit Facilities. We still have $550 million available for issuance under a $2 billion shelf registration. See Note 12 for further discussion.

We use derivative financial instruments, including interest rate swaps, to lower interest expense and manage our exposure to interest rate risk. See Notes 2 and 14 as well as our market risk disclosure for further discussion of our interest rate risk.

CONSOLIDATED FINANCIAL CONDITION

Assets increased $239 million or 6% to $4.4 billion. The increase was primarily attributable to a net increase in property, plant and equipment driven by capital spending and acquisitions in excess of depreciation, refranchising and disposition of assets. The fair value of derivatives recorded as a result of the adoption of Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") also contributed to the increase. These increases were partially offset by a reduction in net receivables primarily related to the AmeriServe bankruptcy reorganization process.

Liabilities decreased $187 million or 4% to $4.3 billion. The decrease was primarily attributable to net paydown of debt, partially offset by increases related to the adoption of SFAS 133.

LIQUIDITY

Operating in the QSR industry allows us to generate substantial cash flows from the operations of our company stores and from our franchise operations, which require a limited TRICON investment in operating assets. Typically, our cash flows include a significant amount of discretionary capital spending. Though a decline in revenues could adversely impact our cash flows from operations, we believe our operating cash flows and our ability to adjust discretionary capital spending and borrow funds will allow us to meet our cash requirements in 2002 and beyond.

Significant contractual obligations and payments as of December 29, 2001 due by year include:

	Less than 1 Year	1-3 Years	4-5 Years	Thereafter	Total
Long-term debt[(a)]	$537	$ 2	$551	$ 900	$1,990
Short-term borrowings	151	—	—	—	151
Debt excluding capital leases	688	2	551	900	2,141
Operating leases[(b)]	221	383	294	893	1,791
Capital leases[(b)]	11	22	17	87	137
Franchisee financing obligations	15	14	—	—	29
Contractual obligations	$935	$421	$862	$1,880	$4,098

(a) Excludes the derivative instrument adjustment, which is discussed in Note 14.

(b) These obligations, which are shown on a nominal basis, relate to operating and capital leases for approximately 4,400 restaurants.

See Note 12 for a discussion of short-term borrowings and long-term debt and Note 13 for a discussion of leases.

In addition, we have certain other commercial commitments where payment is contingent upon the occurrence of certain events. As of December 29, 2001, the maximum exposure under these commercial commitments, which are shown on a nominal basis, include:

Contingent liabilities associated with lease assignments	$ 435
Standby letters of credit[a]	204
Guarantees of unconsolidated affiliates' debt	12
Other commercial commitments	44

(a) Includes $32 million related to guarantees of financial arrangements of franchisees, which are supported by stand-by letters of credit.

See Notes 12 and 22 for a further discussion of these commitments.

Our unconsolidated affiliates also have long-term debt outstanding. As of December 29, 2001 this debt totaled approximately $134 million, our share of which was approximately $68 million. As noted above, we have guaranteed $12 million of this total debt obligation. Our unconsolidated affiliates had total assets of over $900 million as of year-end 2001 and total revenues of approximately $1.6 billion in 2001.

OTHER SIGNIFICANT KNOWN EVENTS, TRENDS OR UNCERTAINTIES EXPECTED TO IMPACT 2002 ONGOING OPERATING PROFIT COMPARISONS WITH 2001

Euro Conversion

Twelve of the fifteen member countries of the European Economic and Monetary Union adopted the Euro as a common legal currency. We have Company and franchise businesses in the adopting member countries. Beginning January 1, 2002, new Euro-denominated bills and coins were issued, and a transition period of two months began. During the transition period local currencies were removed from circulation. We took actions to mitigate our risks related to the Euro conversion efforts including the rollout of Euro-ready point-of-sale ("POS") equipment and back-of-house hardware and software. We have not experienced any significant issues or unexpected business problems resulting from the Euro conversion. Given the absence of any significant problems to date, we do not expect Euro conversion issues to have a material adverse effect on TRICON's operations or financial results in 2002.

Expenditures associated with our conversion efforts totaled approximately $5 million of which $3 million was incurred during 2001. Approximately 30% of these costs related to capital expenditures for new POS equipment and back-of-house hardware and software. The remaining expenditures were mainly related to consulting expenses for initial impact studies and head office accounting systems. We do not expect to incur significant Euro-related expenditures in 2002.

Consumer acceptance of the Euro has not significantly impacted our business to date. From a competitive perspective, we continue to assess the impact of product price transparency, potential revisions to our product bundling strategies, and the creation of Euro-friendly price points. We do not believe that these activities will have sustained adverse impacts on our businesses.

New Accounting Pronouncements

See Note 2.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to financial market risks associated with interest rates, foreign currency exchange rates and commodity prices. In the normal course of business and in accordance with our policies, we manage these risks through a variety of strategies, which include the use of derivative financial and commodity instruments to hedge our underlying exposures. Our policies prohibit the use of derivative instruments for trading purposes, and we have procedures in place to monitor and control their use.

Interest Rate Risk

Our primary market risk exposure is to changes in interest rates, principally in the United States. We attempt to minimize this risk and lower our overall borrowing costs through the utilization of derivative financial instruments, primarily interest rate swaps. These swaps are entered into with financial institutions and have reset dates and critical terms that match those of the underlying debt. Accordingly, any change in market value associated with interest rate swaps is offset by the opposite market impact on the related debt.

At December 29, 2001 and December 30, 2000, a hypothetical 100 basis point increase in short-term interest rates would result in a reduction of $4 million and $19 million, respectively, in annual income before taxes. The estimated reductions are based upon the unhedged portion of our variable rate debt and assume no changes in the volume or composition of debt. In addition, the fair value of our interest rate swaps at December 29, 2001 and December 30, 2000 would decrease approximately $5 million and $11 million, respectively. The fair value of our Senior Unsecured Notes at December 29, 2001 and December 30, 2000 would decrease approximately $72 million and $25 million, respectively. The significant change in the decrease of the fair market value between 2001 and 2000 was

primarily due to the additional Senior Unsecured Notes issued in 2001. Fair value was determined by discounting the projected cash flows.

Foreign Currency Exchange Rate Risk

International ongoing operating profit constituted approximately 31% and 29% of our 2001 and 2000 ongoing operating profit, respectively, excluding unallocated and corporate expenses and foreign exchange net loss. In addition, the Company's net asset exposure (defined as foreign currency assets less foreign currency liabilities) totaled approximately $1 billion and $900 million as of December 29, 2001 and December 30, 2000, respectively. Operating in international markets exposes the Company to movements in foreign currency exchange rates. The Company's primary exposures result from our operations in Asia-Pacific and Europe. Changes in foreign currency exchange rates would impact the translation of our investments in foreign operations, the fair value of our foreign currency denominated financial instruments and our reported foreign currency denominated earnings and cash flows.

We attempt to minimize the exposure related to our investments in foreign operations by financing those investments with local currency debt when practical. In addition, we attempt to minimize the exposure related to foreign currency denominated financial instruments by purchasing goods and services from third parties in local currencies when practical. Consequently, foreign currency denominated financial instruments consist primarily of intercompany short-term receivables and payables. At times, we utilize forward contracts to reduce our risk exposure related to these foreign currency denominated financial instruments. The notional amount and maturity dates of these contracts match those of the underlying receivables or payables such that our foreign currency exchange risk related to these instruments is eliminated. On a limited basis, we utilize forward contracts in order to reduce our risk exposure related to certain foreign currency denominated cash flows from royalties. There were no such forward contracts outstanding as of December 29, 2001.

Commodity Price Risk

We are subject to volatility in food costs as a result of market risk associated with commodity prices. Our ability to recover increased costs through higher pricing is, at times, limited by the competitive environment in which we operate. We manage our exposure to this risk primarily through pricing agreements as well as, on a limited basis, commodity future and option contracts. There were no commodity future and option contracts outstanding at December 29, 2001, and those outstanding at December 30, 2000, were not significant to the Consolidated Financial Statements.

CAUTIONARY STATEMENTS

From time to time, in both written reports and oral statements, we present "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The statements include those identified by such words as "may," "will," "expect," "anticipate," "believe," "plan" and other similar terminology. These "forward-looking statements" reflect our current expectations regarding future events and operating and financial performance and are based upon data available at the time of the statements. Actual results involve risks and uncertainties, including both those specific to the Company and those specific to the industry, and could differ materially from expectations.

Company risks and uncertainties include, but are not limited to, potentially substantial tax contingencies related to the Spin-off, which, if they occur, require us to indemnify PepsiCo, Inc.; our substantial debt leverage and the attendant potential restriction on our ability to borrow in the future, as well as our substantial interest expense and principal repayment obligations; our ability to replace or refinance the Credit Facilities at reasonable rates; potential unfavorable variances between estimated and actual liabilities including the liabilities related to the sale of the non-core businesses; our ability to secure alternative distribution of products and equipment to our restaurants and our ability to ensure adequate supply of restaurant products and equipment in our stores; our ability to complete our Euro conversion plans or the ability of our key suppliers to be Euro-compliant; the ongoing financial viability of our franchisees and licensees; volatility of actuarially determined losses and loss estimates and adoption of new or changes in accounting policies and practices including pronouncements promulgated by standard setting bodies.

Industry risks and uncertainties include, but are not limited to, global and local business, economic and political conditions; legislation and governmental regulation; competitor activities; success of operating initiatives and advertising and promotional efforts; volatility of commodity costs; increases in minimum wage and other operating costs; availability and cost of land and construction; consumer preferences, spending patterns and demographic trends; political or economic instability in local markets and changes in currency exchange and interest rates.

Consolidated Statements of Income

Fiscal years ended December 29, 2001, December 30, 2000 and December 25, 1999

(in millions, except per share data)	2001	2000	1999
Revenues			
Company sales	$ 6,138	$ 6,305	$ 7,099
Franchise and license fees	815	788	723
	6,953	7,093	7,822
Costs and Expenses, net			
Company restaurants			
Food and paper	1,908	1,942	2,238
Payroll and employee benefits	1,666	1,744	1,956
Occupancy and other operating expenses	1,658	1,665	1,814
	5,232	5,351	6,008
General and administrative expenses	796	830	895
Franchise and license expenses	59	49	25
Other (income) expense	(23)	(25)	(16)
Facility actions net loss (gain)	1	(176)	(381)
Unusual items (income) expense	(3)	204	51
Total costs and expenses, net	6,062	6,233	6,582
Operating Profit	891	860	1,240
Interest expense, net	158	176	202
Income Before Income Taxes	733	684	1,038
Income Tax Provision	241	271	411
Net Income	$ 492	$ 413	$ 627
Basic Earnings Per Common Share	$ 3.36	$ 2.81	$ 4.09
Diluted Earnings Per Common Share	$ 3.24	$ 2.77	$ 3.92

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Fiscal years ended December 29, 2001, December 30, 2000 and December 25, 1999

(in millions)	2001	2000	1999
Cash Flows – Operating Activities			
Net income	$ 492	$ 413	$ 627
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	354	354	386
Facility actions net loss (gain)	1	(176)	(381)
Unusual items	(6)	120	45
Other liabilities and deferred credits	(11)	(5)	65
Deferred income taxes	(72)	(51)	(16)
Other non-cash charges and credits, net	15	43	66
Changes in operating working capital, excluding effects of acquisitions and dispositions:			
Accounts and notes receivable	116	(161)	(28)
Inventories	(8)	11	6
Prepaid expenses and other current assets	(3)	(3)	(13)
Accounts payable and other current liabilities	(13)	(94)	(215)
Income taxes payable	(33)	40	23
Net change in operating working capital	59	(207)	(227)
Net Cash Provided by Operating Activities	832	491	565
Cash Flows – Investing Activities			
Capital spending	(636)	(572)	(470)
Proceeds from refranchising of restaurants	111	381	916
Acquisition of restaurants	(108)	(24)	(6)
AmeriServe funding, net	—	(70)	—
Short-term investments	27	(21)	39
Sales of property, plant and equipment	57	64	51
Other, net	46	5	(8)
Net Cash (Used in) Provided by Investing Activities	(503)	(237)	522
Cash Flows – Financing Activities			
Proceeds from Senior Unsecured Notes	842	—	—
Revolving Credit Facility activity, by original maturity			
Three months or less, net	(943)	82	(860)
Proceeds from long-term debt	1	—	4
Repayments of long-term debt	(258)	(99)	(180)
Short-term borrowings — three months or less, net	58	(11)	21
Repurchase shares of common stock	(100)	(216)	(134)
Other, net	48	37	30
Net Cash Used in Financing Activities	(352)	(207)	(1,119)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	—	(3)	—
Net (Decrease) Increase in Cash and Cash Equivalents	(23)	44	(32)
Cash and Cash Equivalents – Beginning of Year	133	89	121
Cash and Cash Equivalents – End of Year	$ 110	$ 133	$ 89

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

December 29, 2001 and December 30, 2000

(in millions)	2001	2000
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 110**	$ 133
Short-term investments, at cost	**35**	63
Accounts and notes receivable, less allowance: $77 in 2001 and $82 in 2000	**175**	302
Inventories	**56**	47
Prepaid expenses and other current assets	**92**	68
Deferred income tax assets	**79**	75
Total Current Assets	**547**	688
Property, plant and equipment, net	**2,777**	2,540
Intangible assets, net	**458**	419
Investments in unconsolidated affiliates	**213**	257
Other assets	**393**	245
Total Assets	**$ 4,388**	$ 4,149
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current Liabilities		
Accounts payable and other current liabilities	**$ 995**	$ 978
Income taxes payable	**114**	148
Short-term borrowings	**696**	90
Total Current Liabilities	**1,805**	1,216
Long-term debt	**1,552**	2,397
Other liabilities and deferred credits	**927**	848
Deferred income taxes	**—**	10
Total Liabilities	**4,284**	4,471
Shareholders' Equity (Deficit)		
Preferred stock, no par value, 250 shares authorized; no shares issued	**—**	—
Common stock, no par value, 750 shares authorized; 146 and 147 shares issued in 2001 and 2000, respectively	**1,097**	1,133
Accumulated deficit	**(786)**	(1,278)
Accumulated other comprehensive income (loss)	**(207)**	(177)
Total Shareholders' Equity (Deficit)	**104**	(322)
Total Liabilities and Shareholders' Equity (Deficit)	**$ 4,388**	$ 4,149

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity (Deficit) and Comprehensive Income

Fiscal years ended December 29, 2001, December 30, 2000 and December 25, 1999

(in millions)	Issued Common Stock Shares	Issued Common Stock Amount	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 26, 1998	153	$ 1,305	$ (2,318)	$ (150)	$ (1,163)
Net income			627		627
Foreign currency translation adjustment				15	15
Minimum pension liability adjustment (net of tax of $1 million)				2	2
Comprehensive Income					644
Adjustment to opening equity related to net advances from PepsiCo		7			7
Repurchase of shares of common stock	(3)	(134)			(134)
Stock option exercises (includes tax benefits of $14 million)	1	39			39
Compensation-related events		47			47
Balance at December 25, 1999	151	$ 1,264	$ (1,691)	$ (133)	$ (560)
Net income			413		413
Foreign currency translation adjustment				(44)	(44)
Comprehensive Income					369
Repurchase of shares of common stock	(6)	(216)			(216)
Stock option exercises (includes tax benefits of $5 million)	2	46			46
Compensation-related events		39			39
Balance at December 30, 2000	147	$ 1,133	$ (1,278)	$ (177)	$ (322)
Net income			**492**		**492**
Foreign currency translation adjustment				**(5)**	**(5)**
Net unrealized loss on derivative instruments (net of tax benefits of $1 million)				**(1)**	**(1)**
Minimum pension liability adjustment (net of tax benefits of $14 million)				**(24)**	**(24)**
Comprehensive Income					**462**
Repurchase of shares of common stock	**(3)**	**(100)**			**(100)**
Stock option exercises (includes tax benefits of $13 million)	**2**	**58**			**58**
Compensation-related events		**6**			**6**
Balance at December 29, 2001	**146**	**$ 1,097**	**$ (786)**	**$ (207)**	**$ 104**

See accompanying Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

(tabular amounts in millions, except share data)

NOTE 1 DESCRIPTION OF BUSINESS

TRICON Global Restaurants, Inc. and Subsidiaries (collectively referred to as "TRICON" or the "Company") is comprised of the worldwide operations of KFC, Pizza Hut and Taco Bell (the "Concepts") and is the world's largest quick service restaurant company based on the number of system units, with over 30,000 units in more than 100 countries and territories. Approximately 36% of our system units are located outside the U.S. TRICON was created as an independent, publicly owned company on October 6, 1997 (the "Spin-off Date") via a tax-free distribution by our former parent, PepsiCo, Inc. ("PepsiCo"), of our Common Stock (the "Distribution" or "Spin-off") to its shareholders. References to TRICON throughout these Consolidated Financial Statements are made using the first person notations of "we," "us " or "our."

Through our widely-recognized Concepts, we develop, operate, franchise and license a system of both traditional and non-traditional quick service restaurants. Each Concept has proprietary menu items and emphasizes the preparation of food with high quality ingredients as well as unique recipes and special seasonings to provide appealing, tasty and attractive food at competitive prices. Our traditional restaurants feature dine-in, carryout and, in some instances, drive-thru or delivery service. Non-traditional units, which are principally licensed outlets, include express units and kiosks which have a more limited menu and operate in non-traditional locations like airports, gasoline service stations, convenience stores, stadiums, amusement parks and colleges, where a full-scale traditional outlet would not be practical or efficient. We are actively pursuing the strategy of multibranding, where two or more of our Concepts are operated in a single restaurant unit. In addition, we are testing multibranding options involving one of our Concepts and a restaurant concept not owned or affiliated with TRICON.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Our preparation of the accompanying Consolidated Financial Statements in conformity with accounting principles generally accepted in the U.S. requires us to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

Principles of Consolidation and Basis of Preparation

Intercompany accounts and transactions have been eliminated. Investments in businesses in which we exercise significant influence but do not control are accounted for by the equity method. Our share of the net income or loss of those unconsolidated affiliates and net foreign exchange gains or losses are included in other (income) expense.

Fiscal Year

Our fiscal year ends on the last Saturday in December and, as a result, a fifty-third week is added every five or six years. Fiscal year 2000 included 53 weeks. The first three quarters of each fiscal year consist of 12 weeks and the fourth quarter consists of 17 weeks in fiscal years with 53 weeks and 16 weeks in fiscal years with 52 weeks. Our subsidiaries operate on similar fiscal calendars with period end dates suited to their businesses. The subsidiaries' period end dates are within one week of TRICON's period end date with the exception of our international businesses, which close one period or one month earlier to facilitate consolidated reporting.

Reclassifications

We have reclassified certain items in the accompanying Consolidated Financial Statements and Notes thereto for prior periods to be comparable with the classification we adopted for the fiscal year ended December 29, 2001. These reclassifications had no effect on previously reported net income.

Franchise and License Operations

We execute franchise or license agreements for each point of distribution which sets out the terms of our arrangement with the franchisee or licensee. Our franchise and certain license agreements require the franchisee or licensee to pay an initial, non-refundable fee and continuing fees based upon a percentage of sales. Subject to our approval and payment of a renewal fee, a franchisee may generally renew the franchise agreement upon its expiration.

We recognize initial fees as revenue when we have performed substantially all initial services required by the franchise or license agreement, which is generally upon opening of a store. We recognize continuing fees as earned with an appropriate provision for estimated uncollectible amounts, which is included in franchise and license expenses. We recognize renewal fees in income when a renewal agreement becomes effective. We include initial fees collected upon the sale of a restaurant to a franchisee in refranchising gains (losses). Fees for development rights are capitalized and amortized over the life of the development agreement.

We incur expenses that benefit both our franchise and license communities and their representative organizations and our company-operated restaurants. These expenses, along with other costs of sales and servicing of franchise and license agreements are charged to general and administrative expenses as incurred. Certain direct costs of our franchise and license operations are charged to franchise and license expenses. These costs include provisions for estimated uncollectible fees, franchise and license marketing funding, amortization expense for franchise related intangible assets and certain other direct incremental franchise and license support costs. Franchise and license expenses also includes rent income from subleasing restaurants to franchisees net of the related occupancy costs.

We monitor the financial condition of our franchisees and licensees and record provisions for estimated losses on receivables when we believe that our franchisees or licensees are unable to make their required payments. While we use the best information available in making our determination, the ultimate recovery of recorded receivables is also dependent upon future economic events and other conditions that may be beyond our control. Included in franchise and license expenses are provisions for uncollectible franchise and license receivables of $24 million, $30 million and $2 million in 2001, 2000 and 1999, respectively.

Direct Marketing Costs

We report substantially all of our direct marketing costs in occupancy and other operating expenses. We charge direct marketing costs to expense ratably in relation to revenues over the year in which incurred and, in the case of advertising production costs, in the year first shown. Deferred direct marketing costs, which are classified as prepaid expenses, consist of media and related advertising production costs which will generally be used for the first time in the next fiscal year. To the extent we participate in independent advertising cooperatives, we expense our contributions as incurred. At the end of 2001 and 2000, we had deferred marketing costs of $2 million and $8 million, respectively. Our advertising expenses were $328 million, $325 million and $385 million in 2001, 2000 and 1999, respectively.

Research and Development Expenses

Research and development expenses, which we expense as incurred, were $28 million in 2001 and $24 million in both 2000 and 1999.

Refranchising Gains (Losses)

Refranchising gains (losses) includes the gains or losses from the sales of our restaurants to new and existing franchisees and the related initial franchise fees, reduced by transaction costs and direct administrative costs of refranchising. In executing our refranchising initiatives, we most often offer groups of restaurants. We recognize gains on restaurant refranchisings when the sale transaction closes, the franchisee has a minimum amount of the purchase price in at-risk equity, and we are satisfied that the franchisee can meet its financial obligations. If the criteria for gain recognition are not met, we defer the gain to the extent we have a remaining financial obligation in connection with the sales transaction. Deferred gains are recognized when these criteria are met or as our financial obligation is reduced. We only consider stores "held for disposal" when they are expected to be sold at a loss. We recognize estimated losses on restaurants to be refranchised and suspend depreciation and amortization when: (a) we make a decision to refranchise; (b) the estimated fair value less costs to sell is less than the carrying amount of the stores; (c) the stores can be immediately removed from operations; and (d) the sale is probable within one year. When we make a decision to retain a store previously held for refranchising, we revalue the store at the lower of its net book value at our original disposal decision date less normal depreciation and amortization during the period held for disposal or its current fair market value. This value becomes the store's new cost basis. We charge (or credit) any difference between the store's carrying amount and its new cost basis to refranchising gains (losses). When we make a decision to close a store previously held for refranchising, we reverse any previously recognized refranchising loss and then record the store closure costs as described below. For groups of restaurants expected to be sold at a gain, we typically do not suspend depreciation and amortization until the sale is probable. For practical purposes, we treat the closing date as the point at which the sale is probable. Refranchising gains (losses) also include charges for estimated exposures related to those partial guarantees of franchisee loan pools and contingent lease liabilities which arose from refranchising activities. These exposures are more fully discussed in Note 22.

Store Closure Costs

We recognize the impairment of a restaurant's assets as store closure costs when we have closed or replaced the restaurant within the same quarter our decision is made. Store closure costs also include costs of disposing of the assets as well as other facility-related expenses from previously closed stores. These costs are expensed as incurred. Additionally, at the date the closure is considered probable, we record a liability for the net present value of any remaining operating lease obligations subsequent to the expected closure date, net of estimated sublease income, if any.

Considerable management judgment is necessary to estimate future cash flows, including sublease income. Accordingly, actual results could vary significantly from the estimates.

Impairment of Long-Lived Assets

We review our long-lived assets related to each restaurant to be held and used in the business, including any allocated intangible assets, semi-annually for impairment, or whenever events or changes in circumstances indicate that the carrying amount of a restaurant may not be recoverable. We evaluate restaurants using a "two-year history of operating losses" as our primary indicator of potential impairment. Based on the best information available, we write down an impaired restaurant to its estimated fair market value, which becomes its new cost basis. We generally measure estimated fair market value by discounting estimated future cash flows. In addition, when we decide to close a store beyond the quarter in which the closure decision is made, it is reviewed for impairment and depreciable lives are adjusted. The impairment evaluation is based on the estimated cash flows from continuing use until the expected disposal date plus the expected terminal value.

Considerable management judgment is necessary to estimate future cash flows. Accordingly, actual results could vary significantly from our estimates.

Impairment of Investments in Unconsolidated Affiliates and Enterprise-level Goodwill

Our methodology for determining and measuring impairment of our investments in unconsolidated affiliates and enterprise-level goodwill is similar to the methodology we use for our restaurants except: (a) the recognition test for an investment in an unconsolidated affiliate compares the carrying amount of our investment to a forecast of our share of the unconsolidated affiliate's undiscounted cash flows after interest and taxes instead of undiscounted cash flows before interest and taxes used for our restaurants; and (b) enterprise-level goodwill is generally evaluated at a country level instead of by individual restaurant. Also, we record impairment charges related to investments in unconsolidated affiliates whenever other circumstances indicate that a decrease in the value of an investment has occurred which is other than temporary.

Considerable management judgment is necessary to estimate future cash flows. Accordingly, actual results could vary significantly from our estimates.

Cash and Cash Equivalents

Cash equivalents represent funds we have temporarily invested (with original maturities not exceeding three months) as part of managing our day-to-day operating cash receipts and disbursements.

Inventories

We value our inventories at the lower of cost (computed on the first-in, first-out method) or net realizable value.

Property, Plant and Equipment

We state property, plant and equipment at cost less accumulated depreciation and amortization, impairment writedowns and valuation allowances. We calculate depreciation and amortization on a straight-line basis over the estimated useful lives of the assets as follows: 5 to 25 years for buildings and improvements, 3 to 20 years for machinery and equipment and 3 to 7 years for capitalized software costs. As discussed further above, we suspend depreciation and amortization on assets related to restaurants that are held for disposal.

Internal Development Costs and Abandoned Site Costs

We capitalize direct costs associated with the site acquisition and construction of a Company unit on that site, including direct internal payroll and payroll-related costs and direct external costs. Only those site-specific costs incurred subsequent to the time that the site acquisition is considered probable are capitalized. We consider acquisition probable upon final site approval. If we subsequently make a determination that a site for which internal development costs have been capitalized will not be acquired or developed, any previously capitalized internal development costs are expensed and included in general and administrative expenses.

Intangible Assets

Intangible assets include both identifiable intangibles and goodwill arising from the allocation of purchase prices of businesses acquired. Where appropriate, intangible assets are allocated to individual restaurants at the time of acquisition. We base amounts assigned to identifiable intangibles on independent appraisals or internal estimates. Goodwill represents the residual purchase price after allocation to all identifiable net assets. Our intangible assets are stated at historical allocated cost less accumulated amortization and impairment writedowns. We amortize intangible assets on a straight-line basis as follows: up to 20 years for reacquired franchise rights, 3 to 40 years for trademarks and other identifiable intangibles and up to 20 years for goodwill. As discussed above, we suspend amortization on intangible assets allocated to restaurants that are held for disposal.

See "New Accounting Pronouncements Not Yet Adopted" for a discussion of the anticipated impact of Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" ("SFAS 141") and SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") on our accounting for intangible assets.

Stock-Based Employee Compensation

We measure stock-based employee compensation cost for financial statement purposes in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and its related interpretations. We include pro forma information in Note 16 as required by SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). Accordingly, we measure compensation cost for stock option grants to employees as the excess of the average market price of the Common Stock at the grant date over the amount the employee must pay for the stock. Our policy is to generally grant stock options at the average market price of the underlying Common Stock at the date of grant.

Derivative Financial Instruments

Our policy prohibits the use of derivative instruments for trading purposes, and we have procedures in place to monitor and control their use. Our use of derivative instruments has included interest rate swaps, collars, forward rate agreements and foreign currency forward contracts. In addition, we utilize on a limited basis, commodity futures and options contracts. Our interest rate and foreign currency derivative contracts are entered into with financial institutions while our commodity derivative contracts are exchange traded.

Effective December 31, 2000, we adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 requires that all derivative instruments be recorded on the Consolidated Balance Sheet at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument is dependent upon whether the derivative has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in the results of operations. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (loss) ("OCI") and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Any ineffective portion of the gain or loss on the derivative instrument is recorded in the results of operations immediately. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in the results of operations immediately. The cumulative effect of adoption of SFAS 133 was insignificant. For fiscal years prior to the adoption of SFAS 133, our treatment of derivative instruments was as described in the following paragraphs.

We recognized the interest differential to be paid or received on interest rate swap and forward rate agreements as an adjustment to interest expense as the differential occurred. We recognized the interest differential to be paid or received on an interest rate collar as an adjustment to interest expense when the interest rate fell below or rose above the collared range. We reflected the recognized interest differential not yet settled in cash in the accompanying Consolidated Balance Sheets as a current receivable or payable.

Each period, we recognized in income foreign exchange gains and losses on forward contracts that were designated and effective as hedges of foreign currency receivables or payables as the differential occurred. These gains or losses were largely offset by the corresponding gain or loss recognized in income on the currency translation of the receivable or payable, as both amounts were based upon the same exchange rates. We reflected the recognized foreign currency differential for forward contracts not yet settled in cash on the accompanying Consolidated Balance Sheets each period as a current receivable or payable. Each period, we recognized in income the change in fair value of foreign exchange gains and losses on forward contracts that were entered into to mitigate the foreign exchange risk of certain forecasted foreign currency denominated royalty receipts. We reflected the fair value of these forward contracts not yet settled on the Consolidated Balance Sheets as a current receivable or payable. If a foreign currency forward contract was terminated prior to maturity, the gain or loss recognized upon termination was immediately recognized in income.

We deferred gains and losses on futures and options contracts that were designated and effective as hedges of future commodity purchases and included them in the cost of the related raw materials when purchased. Changes in the value of futures and options contracts that we used to hedge components of our commodity purchases were highly correlated to changes in the value of the purchased commodity attributable to the hedged component.

New Accounting Pronouncements Not Yet Adopted

In 2001, the Financial Accounting Standards Board ("FASB") issued SFAS 141, which supersedes APB Opinion No. 16, "Business Combinations." SFAS 141 eliminates the pooling-of-interests method of accounting for business combinations and modifies the application of the purchase accounting method. SFAS 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported separately from goodwill. The provisions of SFAS 141 were effective for transactions accounted for using the purchase method that were completed after June 30, 2001.

Such transactions were not significant for the Company through December 29, 2001.

Historically, the Company's business combinations have primarily consisted of acquiring restaurants from our franchisees and have been accounted for using the purchase method of accounting. The primary intangible asset to which we have generally allocated value in these business combinations is reacquired franchise rights. We have determined that reacquired franchise rights do not meet the criteria of SFAS 141 to be recognized as an asset apart from goodwill.

In 2001, the FASB also issued SFAS 142, which supersedes APB Opinion No. 17, "Intangible Assets." SFAS 142 eliminates the requirement to amortize goodwill and indefinite-lived intangible assets, addresses the amortization of intangible assets with a defined life, and addresses impairment testing and recognition for goodwill and intangible assets. SFAS 142 applies to goodwill and intangible assets arising from transactions completed before and after its effective date. SFAS 142 is effective for the Company for fiscal year 2002.

If SFAS 142 had been effective for fiscal year 2001, the cessation of amortization of goodwill and indefinite-lived intangibles would have resulted in our reported net income being approximately $26 million higher. We have not yet determined the impact of the transitional goodwill impairment test, which is required to be performed in connection with the adoption of SFAS 142.

In 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"), which will be effective for the Company beginning fiscal year 2003. SFAS 143 addresses the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. We have not yet determined the impact of adopting SFAS 143 on the Company's Financial Statements.

In 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144") which supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS 121") and the accounting and reporting provisions of APB No. 30, "Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" for the disposal of a segment of a business. SFAS 144 retains many of the fundamental provisions of SFAS 121, but resolves certain implementation issues associated with that Statement. SFAS 144 is effective for the Company for fiscal year 2002. We do not anticipate that the adoption of SFAS 144 will have a significant impact on our results of operations.

NOTE 3 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income (loss) includes:

	2001	2000
Foreign currency translation adjustment	**$ (182)**	$ (177)
Minimum pension liability adjustment, net of tax	**(24)**	—
Unrealized losses on derivative instruments, net of tax	**(1)**	—
Total accumulated other comprehensive income (loss)	**$ (207)**	$ (177)

NOTE 4 EARNINGS PER COMMON SHARE ("EPS")

	2001	2000	1999
Net income	**$ 492**	$ 413	$ 627
Basic EPS:			
Weighted-average common shares outstanding	**147**	147	153
Basic EPS	**$ 3.36**	$ 2.81	$ 4.09
Diluted EPS:			
Weighted-average common shares outstanding	**147**	147	153
Shares assumed issued on exercise of dilutive share equivalents	**27**	19	24
Shares assumed purchased with proceeds of dilutive share equivalents	**(22)**	(17)	(17)
Shares applicable to diluted earnings	**152**	149	160
Diluted EPS	**$ 3.24**	$ 2.77	$ 3.92

Unexercised employee stock options to purchase approximately 2.6 million, 10.8 million and 2.5 million shares of our Common Stock for the years ended December 29, 2001, December 30, 2000 and December 25, 1999, respectively, were not included in the computation of diluted EPS because their exercise prices were greater than the average market price of our Common Stock during the year.

NOTE 5 ITEMS AFFECTING COMPARABILITY OF NET INCOME

Facility Actions Net Loss (Gain)

Facility actions net loss (gain) consists of the following three components as described in Note 2:

- Refranchising (gains) losses;
- Store closure costs; and
- Impairment of long-lived assets for restaurants we intend to continue to use in the business and restaurants we intend to close.

	2001	2000	1999[a]
U.S.			
Refranchising net (gains)[b][c]	$ (44)	$ (202)	$ (405)
Store closure costs	13	6	5
Impairment charges for stores that will continue to be used in the business	10	3	6
Impairment charges for stores to be closed	4	5	9
Facility actions net (gain)	(17)	(188)	(385)
International			
Refranchising net losses (gains)[b][c]	5	2	(17)
Store closure costs	4	4	8
Impairment charges for stores that will continue to be used in the business	8	5	10
Impairment charges for stores to be closed	1	1	3
Facility actions net loss	18	12	4
Worldwide			
Refranchising net (gains)[b][c]	(39)	(200)	(422)
Store closure costs	17	10	13
Impairment charges for stores that will continue to be used in the business[d]	18	8	16
Impairment charges for stores to be closed[d]	5	6	12
Facility actions net loss (gain)	$ 1	$ (176)	$ (381)

(a) Includes favorable adjustments of $19 million in the U.S. and unfavorable adjustments of $6 million in International related to our 1997 fourth quarter charge. These adjustments primarily related to lower-than-expected losses from stores disposed of, decisions to retain certain stores originally expected to be disposed of and changes in estimated costs. The original fourth quarter 1997 charge included estimates for the costs of closing stores; reductions to fair market value, less costs to sell, of the carrying amounts of certain restaurants we intended to refranchise; and impairments of certain restaurants intended to be used in the business.

(b) Includes initial franchise fees in the U.S. of $4 million in 2001, $17 million in 2000 and $38 million in 1999 and in International of $3 million in both 2001 and 2000 and $7 million in 1999. See Note 7.

(c) In 2001, U.S. refranchising net (gains) included $12 million of previously deferred refranchising gains and International refranchising net losses (gains) included a charge of $11 million to mark to market the net assets of the Singapore business, which is held for sale.

(d) Impairment charges for 2001, 2000 and 1999 were recorded against the following asset categories:

	2001	2000	1999
Property, plant and equipment	$ 23	$ 12	$ 25
Goodwill	—	—	1
Reacquired franchise rights	—	2	2
Total impairment	$ 23	$ 14	$ 28

The following table summarizes the 2001 and 2000 activity related to reserves for stores disposed of or held for disposal.

	Asset Impairment Allowances	Liabilities
Balance at December 25, 1999	$ 20	$ 71
Amounts used	(10)	(22)
(Income) expense impact:		
New decisions	14	5
Estimate/decision changes	(4)	(7)
Other	—	3
Balance at December 30, 2000	$ 20	$ 50
Amounts used	(8)	(18)
(Income) expense impact:		
New decisions	21	6
Estimate/decision changes	—	1
Other	(6)	9
Balance at December 29, 2001	**$ 27**	**$ 48**

The following table summarizes the carrying value of assets held for disposal by reportable operating segment.

	2001	2000
U.S.	$ 8	$ 6
International[a]	36	—
	$ 44	$ 6

(a) The carrying value in 2001 related to the Singapore business, which operates approximately 100 stores as of December 29, 2001.

The following table summarizes Company sales and restaurant margin related to stores held for disposal at December 29, 2001 or disposed of through refranchising or closure during 2001, 2000 and 1999. Restaurant margin represents Company sales less the cost of food and paper, payroll and employee benefits and occupancy and other operating expenses. These amounts do not include the impact of Company stores that have been contributed to unconsolidated affiliates.

	2001	2000	1999
Stores held for disposal at December 29, 2001:			
Sales	$ 114	$ 114	$ 110
Restaurant margin	9	8	12
Stores disposed of in 2001, 2000 and 1999:			
Sales	$ 157	$ 684	$1,716
Restaurant margin	15	88	202

Restaurant margin includes a benefit from the suspension of depreciation and amortization of approximately $1 million, $2 million and $9 million in 2001, 2000 and 1999, respectively.

Unusual Items (Income) Expense

	2001	2000	1999
U.S.	$ 15	$ 29	$13
International	—	8	3
Unallocated	(18)	167	35
Worldwide	$ (3)	$204	$51

Unusual items income in 2001 primarily included: (a) recoveries of approximately $21 million related to the AmeriServe Food Distribution Inc. ("AmeriServe") bankruptcy reorganization process; (b) aggregate settlement costs of $15 million associated with certain litigation; and (c) expenses, primarily severance, related to decisions to streamline certain support functions. See Note 22 for discussions of the AmeriServe bankruptcy reorganization process and litigation.

In the fourth quarter of 2001, we recorded expenses of approximately $4 million related to streamlining certain support functions, which included the termination of approximately 90 employees. The reserves established, which primarily related to severance, were almost fully utilized in the first quarter of 2002.

Unusual items expense in 2000 included: (a) $170 million of charges and direct incremental costs related to the AmeriServe bankruptcy reorganization process; (b) an increase in the estimated costs of settlement of certain wage and hour litigation and associated defense costs incurred in 2000; (c) costs associated with the formation of new unconsolidated affiliates; and (d) the reversal of excess provisions arising from the resolution of a dispute associated with the disposition of our Non-core Businesses, which is discussed in Note 22.

Unusual items expense in 1999 included: (a) the write-off of approximately $41 million owed to us by AmeriServe at the AmeriServe bankruptcy petition date; (b) an increase in the estimated costs of settlement of certain wage and hour litigation and associated defense and other costs incurred in 1999; (c) favorable adjustments to our 1997 fourth quarter charge; (d) the write-down to estimated fair market value less cost to sell of our idle Wichita processing facility; (e) costs associated with the formation of new unconsolidated affiliates; (f) the impairment of enterprise-level goodwill in one of our international businesses; and (g) severance and other exit costs related to strategic decisions to streamline the infrastructure of our international business. The original fourth quarter 1997 charge included impairments of certain investments in unconsolidated affiliates to be retained and costs of certain personnel reductions.

Accounting Changes

In 1998 and 1999, we adopted several accounting and human resource policy changes (collectively, the "accounting changes") which favorably impacted our 1999 operating results by approximately $29 million. The estimated impact is summarized below:

	1999		
	Restaurant Margin	General and Administrative Expenses	Operating Profit
U.S.	$11	$ 4	$ 15
Unallocated	—	14	14
Total	$11	$18	$ 29

The accounting changes were as follows:

Effective December 27, 1998, we adopted Statement of Position 98-1 ("SOP 98-1"), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Based on our adoption of SOP 98-1, we capitalized approximately $13 million of internal software development costs and third party software costs in 1999. The amortization of computer software assets that became ready for their intended use in 1999 was insignificant.

In addition, we adopted Emerging Issues Task Force Issue No. 97-11 ("EITF 97-11"), "Accounting for Internal Costs Relating to Real Estate Property Acquisitions," upon its issuance in March 1998. In the first quarter of 1999, we also made a discretionary policy change limiting the types of costs eligible for capitalization to those direct cost types described as capitalizable under SOP 98-1. This change unfavorably impacted our 1999 operating profit by approximately $3 million.

To conform to the Securities and Exchange Commission's April 23, 1998 interpretation of SFAS 121 our store closure accounting policy was changed in 1998. Effective for closure decisions made on or subsequent to April 23, 1998, we recognize store closure costs when we have closed the restaurant within the same quarter the closure decision is made. When we decide to close a restaurant beyond the quarter in which the closure decision is made, we review it for impairment. In fiscal year 1999, this change resulted in additional depreciation and amortization of approximately $3 million through April 23, 1999.

In 1999, the methodology used by our independent actuary was refined and enhanced to provide a more reliable estimate of the self-insured portion of our current and prior years' ultimate loss projections related to workers' compensation,

general liability and automobile liability insurance programs. The change in methodology resulted in a one-time increase in our 1999 operating profit of over $8 million.

At the end of 1998, we changed our method of determining the pension discount rate to better reflect the assumed investment strategies we would most likely use to invest any short-term cash surpluses. The pension discount methodology change resulted in a one-time increase in our 1999 operating profit of approximately $6 million.

In 1999, our vacation policies were conformed to a calendar-year based, earn-as-you-go, use-or-lose policy. The change provided a one-time favorable increase in our 1999 operating profit of approximately $7 million. Other accounting policy standardization changes by our three U.S. Concepts provided a one-time favorable increase in our 1999 operating profit of approximately $1 million.

NOTE 6 SUPPLEMENTAL CASH FLOW DATA

	2001	2000	1999
Cash Paid for:			
Interest	$ 164	$ 194	$ 212
Income taxes	264	252	340
Significant Non-Cash Investing and Financing Activities:			
Issuance of promissory note to acquire an unconsolidated affiliate	$ —	$ 25	$ —
Contribution of non-cash net assets to an unconsolidated affiliate	21	67	—
Assumption of liabilities in connection with an acquisition	36	6	1
Fair market value of assets received in connection with a non-cash acquisition	9	—	—
Capital lease obligations incurred to acquire assets	18	4	4

NOTE 7 FRANCHISE AND LICENSE FEES

	2001	2000	1999
Initial fees, including renewal fees	$ 32	$ 48	$ 71
Initial franchise fees included in refranchising gains	(7)	(20)	(45)
	25	28	26
Continuing fees	790	760	697
	$ 815	$ 788	$ 723

NOTE 8 OTHER (INCOME) EXPENSE

	2001	2000	1999
Equity income from investments in unconsolidated affiliates	$ (26)	$ (25)	$ (19)
Foreign exchange net loss	3	—	3
	$ (23)	$ (25)	$ (16)

NOTE 9 PROPERTY, PLANT AND EQUIPMENT, NET

	2001	2000
Land	$ 579	$ 543
Buildings and improvements	2,608	2,469
Capital leases, primarily buildings	91	82
Machinery and equipment	1,647	1,522
	4,925	4,616
Accumulated depreciation and amortization	(2,121)	(2,056)
Impairment allowances	(27)	(20)
	$ 2,777	$ 2,540

Depreciation and amortization expense was $320 million, $319 million and $345 million in 2001, 2000 and 1999, respectively.

NOTE 10 INTANGIBLE ASSETS, NET

	2001	2000
Reacquired franchise rights	$ 294	$ 264
Trademarks and other identifiable intangibles	105	102
Goodwill	59	53
	$ 458	$ 419

In determining the above amounts, we have subtracted accumulated amortization of $410 million for 2001 and $415 million for 2000. Amortization expense was $37 million, $38 million and $44 million in 2001, 2000 and 1999, respectively.

NOTE 11 ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

	2001	2000
Accounts payable	$ 326	$ 326
Accrued compensation and benefits	210	209
Other current liabilities	459	443
	$ 995	$ 978

NOTE 12 SHORT-TERM BORROWINGS AND LONG-TERM DEBT

	2001	2000
Short-term Borrowings		
Current maturities of long-term debt	**$ 545**	$ 10
International lines of credit	**138**	68
Other	**13**	12
	$ 696	$ 90
Long-term Debt		
Senior, unsecured Term Loan Facility, due October 2002	**$ 442**	$ 689
Senior, unsecured Revolving Credit Facility, expires October 2002	**94**	1,037
Senior, Unsecured Notes, due May 2005 (7.45%)	**351**	351
Senior, Unsecured Notes, due April 2006 (8.50%)	**198**	—
Senior, Unsecured Notes, due May 2008 (7.65%)	**251**	251
Senior, Unsecured Notes, due April 2011 (8.875%)	**644**	—
Capital lease obligations (See Note 13)	**79**	74
Other, due through 2010 (6%–12%)	**4**	5
	2,063	2,407
Less current maturities of long-term debt	**(545)**	(10)
Long-term debt excluding SFAS 133 adjustment	**1,518**	2,397
Derivative instrument adjustment under SFAS 133 (See Note 14)	**34**	—
Long-term debt including SFAS 133 adjustment	**$ 1,552**	$ 2,397

Our primary bank credit agreement, as amended, is comprised of a senior unsecured Term Loan Facility and a $1.75 billion senior unsecured Revolving Credit Facility, which was reduced from $3 billion as part of the amendment discussed below (collectively referred to as the "Credit Facilities"). The Credit Facilities mature on October 2, 2002. Amounts outstanding under our Revolving Credit Facility are expected to fluctuate, but Term Loan Facility reductions may not be reborrowed.

Under the terms of the Revolving Credit Facility, we may borrow up to the maximum borrowing limit less outstanding letters of credit. At December 29, 2001, we had unused Revolving Credit Facilities aggregating $2.7 billion, net of outstanding letters of credit of $0.2 billion. We expensed facility fees on the Revolving Credit Facility of approximately $4 million in each of 2001, 2000 and 1999.

Amounts outstanding under our Credit Facilities at December 29, 2001 have been classified as short-term borrowings in the Consolidated Balance Sheet due to the October 2002 maturity. We are currently in negotiations to replace the Credit Facilities prior to the maturity date with new borrowings, which will reflect the market conditions and terms available at that time.

The Credit Facilities are subject to various covenants including financial covenants relating to maintenance of specific leverage and fixed charge coverage ratios. In addition, the Credit Facilities contain affirmative and negative covenants including, among other things, limitations on certain additional indebtedness, guarantees of indebtedness, cash dividends, aggregate non-U.S. investment and certain other transactions, as defined in the agreement. The Credit Facilities require prepayment of a portion of the proceeds from certain capital market transactions and refranchising of restaurants.

Interest on amounts borrowed is payable at least quarterly at variable rates, based principally on the London Interbank Offered Rate ("LIBOR") plus a variable margin factor. At December 29, 2001 and December 30, 2000, the weighted average interest rate on our variable rate debt was 3.4% and 7.2%, respectively, which includes the effects of associated interest rate swaps. See Note 14 for a discussion of our use of derivative instruments, our management of credit risk inherent in derivative instruments and fair value information related to debt and interest rate swaps.

On February 22, 2002, we entered into an agreement to amend certain terms of our Credit Facilities. This amendment provides for, among other things, additional flexibility with respect to acquisitions and other investments. In addition, we voluntarily reduced our maximum borrowings under the Revolving Credit Facility from $3.0 billion to $1.75 billion. As a result of this amendment, we capitalized debt costs of approximately $1.5 million. These costs will be amortized into interest expense over the remaining life of the Credit Facilities.

In 1997, we filed a shelf registration statement with the Securities and Exchange Commission with respect to offerings of up to $2 billion of senior unsecured debt. In May 1998, we issued $350 million of 7.45% Unsecured Notes due May 15, 2005 ("2005 Notes") and $250 million of 7.65% Unsecured Notes due May 15, 2008 ("2008 Notes"). Interest on the 2005 Notes and 2008 Notes commenced on November 15, 1998 and is payable semi-annually thereafter. The effective interest rate on the 2005 Notes and the 2008 Notes is 7.6% and 7.8%, respectively. In April 2001, we issued $200 million of 8.5% Senior Unsecured Notes due April 15, 2006 ("2006 Notes") and $650 million of 8.875% Senior Unsecured Notes due April 15, 2011 ("2011 Notes") (collectively referred to as the "Notes"). The net proceeds from the issuance of the Notes were used to reduce amounts outstanding under the Credit Facilities. Interest on the Notes is payable April 15 and October 15 and commenced on October 15, 2001. The effective interest rate on the 2006 Notes and the 2011 Notes is 9.0% and 9.2%, respectively. We still have $550 million available for issuance under the $2 billion shelf registration statement.

Interest expense on the short-term borrowings and long-term debt was $172 million, $190 million and $218 million in 2001, 2000 and 1999, respectively. Net interest expense of $9 million on incremental borrowings related to the AmeriServe bankruptcy reorganization process was included in unusual items in 2000.

The annual maturities of long-term debt through 2006 and thereafter, excluding capital lease obligations and the derivative instrument adjustments, are 2002 – $537 million; 2003 – $1 million; 2004 – $1 million; 2005 – $351 million; 2006 – $200 million and $900 million thereafter.

NOTE 13 LEASES

We have non-cancelable commitments under both capital and long-term operating leases, primarily for our restaurants. Capital and operating lease commitments expire at various dates through 2087 and, in many cases, provide for rent escalations and renewal options. Most leases require us to pay related executory costs, which include property taxes, maintenance and insurance.

Future minimum commitments and amounts to be received as lessor or sublessor under non-cancelable leases are set forth below:

	Commitments		Lease Receivables	
	Capital	Operating	Direct Financing	Operating
2002	$ 11	$ 221	$ 2	$ 9
2003	12	203	2	8
2004	10	180	1	7
2005	9	160	1	7
2006	8	134	1	6
Thereafter	87	893	8	33
	$137	$1,791	$15	$70

At year-end 2001, the present value of minimum payments under capital leases was $79 million.

The details of rental expense and income are set forth below:

	2001	2000	1999
Rental expense			
Minimum	**$ 283**	$ 253	$ 263
Contingent	**10**	28	28
	$ 293	$ 281	$ 291
Minimum rental income	**$ 14**	$ 18	$ 20

Contingent rentals are generally based on sales levels in excess of stipulated amounts contained in the lease agreements.

During 2001, we entered into sales-leaseback transactions involving 17 of our restaurants. Under the transactions, the restaurants were sold for approximately $18 million and have been leased back for initial terms of 15 years. These leasebacks have been accounted for as operating leases. The future lease payments are included in the above tables. Gains on the sales, which were not significant, were deferred and will be amortized to rent expense over the initial term of the leases.

NOTE 14 FINANCIAL INSTRUMENTS

Derivative Instruments

Interest Rates

We enter into interest rate swaps, collars and forward rate agreements with the objective of reducing our exposure to interest rate risk and lowering interest expense for a portion of our debt. Under the contracts, we agree with other parties to exchange, at specified intervals, the difference between variable rate and fixed rate amounts calculated on a notional principal amount. At December 29, 2001 and December 30, 2000 we had outstanding pay-variable interest rate swaps with notional amounts of $350 million. These swaps have reset dates and floating rate indices which match those of our underlying fixed-rate debt and have been designated as fair value hedges of a portion of that debt. As the swaps qualify for the short-cut method under SFAS 133 no ineffectiveness has been recorded. The fair value of these swaps as of December 29, 2001 was approximately $36 million and has been included in Other assets. The portion of this fair value which has not yet been recognized as a reduction to interest expense (approximately $34 million at December 29, 2001) has been included in Long-term debt.

At December 29, 2001 and December 30, 2000, we also had outstanding pay-fixed interest rate swaps with notional amounts of $650 million and $450 million, respectively. These swaps have been designated as cash flow hedges of a portion of our variable-rate debt. As the critical terms of the swaps and hedged interest payments are the same, we have determined that the swaps are completely effective in offsetting the variability in cash flows associated with interest payments on that debt due to interest rate fluctuations.

During 2000, we entered into interest rate collars to reduce interest rate sensitivity on a portion of our variable rate bank debt. Interest rate collars effectively lock in a range of interest rates by establishing a cap and floor. Reset dates and the floating index on the collars match those of the underlying bank debt. If interest rates remain within the collared cap and floor, no payments are made. If rates rise above the cap level, we receive a payment. If rates fall below the floor level, we make a payment. At December 29, 2001 and December 30, 2000, we did not have any outstanding interest rate collars.

Foreign Exchange

We enter into foreign currency forward contracts with the objective of reducing our exposure to cash flow volatility arising from foreign currency fluctuations associated with certain foreign currency denominated financial instruments, the majority of which are intercompany short-term receivables and payables. The notional amount, maturity date, and currency of these contracts

match those of the underlying receivables or payables. We also enter into foreign currency forward contracts to reduce our cash flow volatility associated with certain forecasted foreign currency denominated royalties. These forward contracts have historically been short-term in nature, with termination dates matching forecasted settlement dates of the receivables or payables or cash receipts from royalties within the next twelve months. For those foreign currency exchange forward contracts that we have designated as cash flow hedges, we measure ineffectiveness by comparing the cumulative change in the forward contract with the cumulative change in the hedged item, both of which are based on forward rates. No ineffectiveness was recognized in 2001 for those foreign currency forward contracts designated as cash flow hedges.

Commodities

We also utilize on a limited basis commodity futures and options contracts to mitigate our exposure to commodity price fluctuations over the next twelve months. Those contracts have not been designated as hedges under SFAS 133. There were no open commodity future and options contracts outstanding at December 29, 2001 and those outstanding as of the adoption of SFAS 133 on December 31, 2000 were not significant.

Deferred Amounts in Accumulated Other Comprehensive Income (Loss)

As of December 29, 2001, we had a net deferred loss associated with cash flow hedges of approximately $1 million, net of tax. Of this amount, we estimate that a net after-tax gain of less than $1 million will be reclassified into earnings through December 28, 2002. The remaining net after-tax loss of approximately $1 million, which arose from the settlement of treasury locks entered into prior to the issuance of certain amounts of our fixed-rate debt, will be reclassified into earnings from December 29, 2002 through 2011 as an increase to interest expense on this debt.

Credit Risks

Our credit risk from the interest rate swap, collar and forward rate agreements and foreign exchange contracts is dependent both on the movement in interest and currency rates and possibility of non-payment by counterparties. We mitigate credit risk by entering into these agreements with high-quality counterparties, netting swap and forward rate payments within contracts and limiting payments associated with the collars to differences outside the collared range.

Accounts receivable consists primarily of amounts due from franchisees and licensees for initial and continuing fees. In addition, we have notes and lease receivables from certain of our franchisees. The financial condition of these franchisees and licensees is largely dependent upon the underlying business trends of our Concepts. This concentration of credit risk is mitigated, in part, by the large number of franchisees and licensees of each Concept and the short-term nature of the franchise and license fee receivables.

Fair Value

At December 29, 2001 and December 30, 2000, the fair values of cash and cash equivalents, short-term investments, accounts receivable, and accounts payable approximated carrying value because of the short-term nature of these instruments. The fair value of notes receivable approximate carrying value after consideration of recorded allowances.

The carrying amounts and fair values of our other financial instruments subject to fair value disclosures are as follows:

	2001		2000	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Debt:				
Short-term borrowings and long-term debt, excluding capital leases and the derivative instrument adjustments	**$ 2,135**	**$ 2,215**	$ 2,413	$ 2,393
Debt-related derivative instruments:				
Open contracts in a net asset position	**37**	**37**	—	24
Foreign currency-related derivative instruments:				
Open contracts in a net asset position	**5**	**5**	—	—
Guarantees and letters of credit	**—**	**38**	—	51

We estimated the fair value of debt, debt-related derivative instruments, foreign currency-related derivative instruments, guarantees and letters of credit using market quotes and calculations based on market rates.

NOTE 15 PENSION AND POSTRETIREMENT MEDICAL BENEFITS

Pension Benefits

We sponsor noncontributory defined benefit pension plans covering substantially all full-time U.S. salaried employees, certain hourly employees and certain international employees. During 2001, the TRICON Retirement Plan (the "Plan") was amended such that any salaried employee hired or rehired by TRICON after September 30, 2001 will not be eligible to participate in the Plan. Benefits are based on years of service and earnings or stated amounts for each year of service.

Postretirement Medical Benefits

Our postretirement plan provides health care benefits, principally to U.S. salaried, retirees and their dependents. This plan includes retiree cost sharing provisions. During 2001, the plan was amended such that any salaried employee hired or rehired by TRICON after September 30, 2001 will not be eligible to participate in this plan. Employees hired prior to September 30, 2001 are eligible for benefits if they meet age and service requirements and qualify for retirement benefits.

The components of net periodic benefit cost are set forth below:

	Pension Benefits		
	2001	2000	1999
Service cost	**$ 20**	$ 19	$ 20
Interest cost	**28**	24	22
Amortization of prior service cost	**1**	1	1
Expected return on plan assets	**(29)**	(25)	(24)
Recognized actuarial loss	**1**	—	—
Net periodic benefit cost	**$ 21**	$ 19	$ 19
Additional (gain) loss recognized due to:			
Curtailment	**$ —**	$ (4)	$ (4)
Special termination benefits	**2**	—	—

	Postretirement Medical Benefits		
	2001	2000	1999
Service cost	**$ 2**	$ 2	$ 2
Interest cost	**4**	3	3
Amortization of prior service cost	**(1)**	(1)	(2)
Net periodic benefit cost	**$ 5**	$ 4	$ 3
Additional (gain) recognized due to:			
Curtailment	**$ —**	$ (1)	$ (1)

Prior service costs are amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits. Curtailment gains have generally been recognized in facility actions net gain as they have resulted primarily from refranchising and closure activities.

The change in benefit obligation and plan assets and reconciliation of funded status is as follows:

	Pension Benefits		Postretirement Medical Benefits	
	2001	2000	**2001**	2000
Change in benefit obligation				
Benefit obligation at beginning of year	**$ 351**	$ 315	**$ 48**	$ 45
Service cost	**20**	19	**2**	2
Interest cost	**28**	24	**4**	3
Plan amendments	**1**	—	**—**	—
Special termination benefits	**2**	—	**—**	—
Curtailment (gain)	**(3)**	(5)	**—**	(2)
Benefits and expenses paid	**(17)**	(19)	**(3)**	(3)
Actuarial loss	**38**	17	**7**	3
Benefit obligation at end of year	**$ 420**	$ 351	**$ 58**	$ 48
Change in plan assets				
Fair value of plan assets at beginning of year	**$ 313**	$ 290		
Actual return on plan assets	**(51)**	39		
Employer contributions	**48**	4		
Benefits paid	**(17)**	(19)		
Administrative expenses	**(2)**	(1)		
Fair value of plan assets at end of year	**$ 291**	$ 313		
Reconciliation of funded status				
Funded status	**$ (129)**	$ (38)	**$ (58)**	$ (48)
Unrecognized actuarial loss (gain)	**87**	(30)	**12**	5
Unrecognized prior service cost	**4**	5	**—**	(1)
Net amount recognized at year-end	**$ (38)**	$ (63)	**$ (46)**	$ (44)
Amounts recognized in the statement of financial position consist of:				
Accrued benefit liability	**$ (84)**	$ (63)	**$ (46)**	$ (44)
Intangible asset	**8**	—	**—**	—
Accumulated other comprehensive loss	**38**	—	**—**	—
	$ (38)	$ (63)	**$ (46)**	$ (44)
Other comprehensive loss attributable to change in additional minimum liability recognition	**$ 38**	$ —		
Additional year-end information for pension plans with benefit obligations in excess of plan assets				
Benefit obligation	**$ 420**	$ 42		
Fair value of plan assets	**291**	—		
Additional year-end information for pension plans with accumulated benefit obligations in excess of plan assets				
Benefit obligation	**$ 420**	$ 42		
Accumulated benefit obligation	**369**	21		
Fair value of plan assets	**291**	—		

The assumptions used to compute the information above are set forth below:

	Pension Benefits			Postretirement Medical Benefits		
	2001	2000	1999	**2001**	2000	1999
Discount rate	**7.6%**	8.0%	7.8%	**7.6%**	8.3%	7.6%
Long-term rate of return on plan assets	**10.0%**	10.0%	10.0%	**—**	—	—
Rate of compensation increase	**4.6%**	5.0%	5.5%	**4.6%**	5.0%	5.5%

We have assumed the annual increase in cost of postretirement medical benefits was 8.0% for non-Medicare eligible retirees and 12.0% for Medicare eligible retirees in 2001 and will be 7.5% and 11.0%, respectively, in 2002. We are assuming the rates for non-Medicare and Medicare eligible retirees will decrease to an ultimate rate of 5.5% by 2008 and 2010, respectively, and remain at that level thereafter. There is a cap on our medical liability for certain retirees. The cap for Medicare eligible retirees was reached in 2000 and the cap for non-Medicare eligible retirees is expected to be reached between the years 2010–2012; once the cap is reached, our annual cost per retiree will not increase.

Assumed health care cost trend rates have a significant effect on the amounts reported for our postretirement health care plans. A one percent increase or decrease in the assumed health care cost trend rates would have increased or decreased our accumulated postretirement benefit obligation at December 29, 2001 by approximately $3 million. The impact on our 2001 benefit cost would not have been significant.

NOTE 16 EMPLOYEE STOCK-BASED COMPENSATION

At year-end 2001, we had four stock option plans in effect: the TRICON Global Restaurants, Inc. Long-Term Incentive Plan ("1999 LTIP"), the 1997 Long-Term Incentive Plan ("1997 LTIP"), the TRICON Global Restaurants, Inc. Restaurant General Manager Stock Option Plan ("YUMBUCKS") and the TRICON Global Restaurants, Inc. SharePower Plan ("SharePower").

We may grant awards of up to 7.6 million shares and 22.5 million shares of stock under the 1999 LTIP and the 1997 LTIP, respectively. Potential awards to employees and non-employee directors under the 1999 LTIP include stock options, incentive stock options, stock appreciation rights, restricted stock, stock units, restricted stock units, performance shares and performance units. Potential awards to employees and non-employee directors under the 1997 LTIP include stock appreciation rights, restricted stock and performance restricted stock units. Prior to January 1, 2002, we also could grant stock options and incentive stock options under the 1997 LTIP. We have issued only stock options and performance restricted stock units under the 1997 LTIP and have issued only stock options under the 1999 LTIP.

We may grant stock options under the 1999 LTIP to purchase shares at a price equal to or greater than the average market price of the stock on the date of grant. New option grants under the 1999 LTIP can have varying vesting provisions and exercise periods. Previously granted options under the 1997 LTIP and 1999 LTIP vest in periods ranging from immediate to 2006 and expire ten to fifteen years after grant.

We may grant options to purchase up to 7.5 million shares of stock under YUMBUCKS at a price equal to or greater than the average market price of the stock on the date of grant. YUMBUCKS options granted have a four year vesting period and expire ten years after grant. We may grant options to purchase up to 7.0 million shares of stock at a price equal to or greater than the average market price of the stock under SharePower on the date of grant. SharePower grants have not been made since Spin-off. Previously granted SharePower options could be outstanding through 2006.

At the Spin-off Date, we converted certain of the unvested options to purchase PepsiCo stock that were held by our employees to TRICON stock options under either the 1997 LTIP or SharePower. We converted the options at amounts and exercise prices that maintained the amount of unrealized stock appreciation that existed immediately prior to the Spin-off. The vesting dates and exercise periods of the options were not affected by the conversion. Based on their original PepsiCo grant date, our converted options vest in periods ranging from one to ten years and expire ten to fifteen years after grant.

The following table reflects pro forma net income and earnings per common share had we elected to adopt the fair value approach of SFAS 123.

	2001	2000	1999
Net Income			
As reported	**$ 492**	$ 413	$ 627
Pro forma	**462**	379	597
Basic Earnings per Common Share			
As reported	**$ 3.36**	$ 2.81	$ 4.09
Pro forma	**3.15**	2.58	3.90
Diluted Earnings per Common Share			
As reported	**$ 3.24**	$ 2.77	$ 3.92
Pro forma	**3.04**	2.55	3.73

The effects of applying SFAS 123 in the pro forma disclosures are not likely to be representative of the effects on pro forma net income for future years because variables such as the number of option grants, exercises and stock price volatility included in these disclosures may not be indicative of future activity.

We estimated the fair value of each option grant made during 2001, 2000 and 1999 as of the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2001	2000	1999
Risk-free interest rate	**4.7%**	6.4%	4.9%
Expected life (years)	**6.0**	6.0	6.0
Expected volatility	**32.7%**	32.6%	29.7%
Expected dividend yield	**0.0%**	0.0%	0.0%

A summary of the status of all options granted to employees and non-employee directors as of December 29, 2001, December 30, 2000 and December 25, 1999, and changes during the years then ended is presented below (tabular options in thousands):

	December 29, 2001		December 30, 2000		December 25, 1999	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	26,679	$ 31.20	24,166	$ 31.18	22,699	$ 26.16
Granted at price equal to average market price	5,009	34.68	7,860	30.33	5,709	49.07
Exercised	(1,817)	23.12	(1,829)	21.84	(1,273)	19.51
Forfeited	(2,645)	34.31	(3,518)	33.99	(2,969)	31.94
Outstanding at end of year	27,226	$ 32.07	26,679	$ 31.20	24,166	$ 31.18
Exercisable at end of year	6,481	$ 25.53	7,622	$ 24.59	3,665	$ 22.44
Weighted average fair value of options at date of grant	$ 14.20		$13.48		$ 19.20	

The following table summarizes information about stock options outstanding and exercisable at December 29, 2001 (tabular options in thousands):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
$ 0–20	934	2.91	$ 15.21	934	$ 15.21
20–30	7,846	5.32	25.82	3,674	24.34
30–35	13,211	7.89	31.70	1,676	31.77
35–55	4,842	7.69	43.18	192	42.83
55–75	393	7.26	72.75	5	72.75
	27,226			6,481	

In November 1997, we granted two awards of performance restricted stock units of TRICON's Common Stock to our Chief Executive Officer ("CEO"). The awards were made under the 1997 LTIP and may be paid in Common Stock or cash at the discretion of the Compensation Committee of the Board of Directors. Payment of an award of $2.7 million was contingent upon the CEO's continued employment through January 25, 2001 and our attainment of certain pre-established earnings thresholds, as defined. In January 2001, our CEO received a cash payment of $2.7 million following the Compensation Committee's certification of TRICON's attainment of the pre-established earnings threshold. Payment of an award of $3.6 million is contingent upon his employment through January 25, 2006 and our attainment of certain pre-established earnings thresholds, as defined. The annual expense related to these awards included in earnings was $0.5 million for 2001 and $1.3 million for both 2000 and 1999.

During 2000 and 1999, modifications were made to certain 1997 LTIP and SharePower options held by terminated employees. These modifications resulted in additional compensation expense of an insignificant amount in 2000 and $5.0 million in 1999 with a corresponding increase in our Common Stock account.

NOTE 17 OTHER COMPENSATION AND BENEFIT PROGRAMS

We sponsor two deferred compensation benefit programs, the Restaurant Deferred Compensation Plan and the Executive Income Deferral Program (the "RDC Plan" and the "EID Plan," respectively) for eligible employees and non-employee directors.

Effective October 1, 2001, participants can no longer defer funds into the RDC Plan. Prior to that date, the RDC Plan allowed participants to defer a portion of their annual salary. The participant's balances will remain in the RDC Plan until their scheduled distribution dates. As defined by the RDC Plan, we credit the amounts deferred with earnings based on the investment options selected by the participants. Investment options in the RDC Plan consist of phantom shares of various mutual funds and TRICON Common Stock. We recognize compensation expense for the appreciation or depreciation, if any, attributable to all investments in the RDC Plan as well as for our matching contribution. Our obligations under the RDC program as of the end of 2001 and 2000 were $13 million and $10 million, respectively. We recognized annual compensation expense of $3 million in 2001 and $1 million in both 2000 and 1999 for the RDC Plan.

The EID Plan allows participants to defer receipt of a portion of their annual salary and all or a portion of their incentive compensation. As defined by the EID Plan, we credit the amounts deferred with earnings based on the investment options selected by the participants. The EID Plan includes an investment option that allows participants to defer incentive compensation to purchase phantom shares of our Common Stock at a 25% discount from the average market price at the date of deferral (the "Discount Stock Account"). Participants bear the risk of forfeiture of both the discount and any amounts deferred if they voluntarily separate from employment during the two year vesting period. We expense the intrinsic value of the discount over the vesting period.

We phased in certain program changes to the EID Plan during 1999 and 2000. These changes included limiting investment options, primarily to cash and phantom shares of our Common Stock, and requiring the distribution of investments in the TRICON Common Stock investment options to be paid in shares of our Common Stock. Due to these changes, in 1998 we agreed to credit a one time premium to participant accounts on January 1, 2000. The premium totaled approximately $3 million and was equal to 10% of the participants' account balances as of December 31, 1999, excluding (a) investments in the Discount Stock Account and (b) deferrals made in 1999.

Subsequent to January 1, 1999, we no longer recognize as compensation expense the appreciation or depreciation, if any, attributable to investments in the Discount Stock Account since these investments can only be settled in shares of our Common Stock. We also reduced our liabilities by $21 million related to investments in the Discount Stock Account and increased the Common Stock Account by the same amount at January 1, 1999.

Subsequent to January 1, 2000, we no longer recognize as compensation expense the appreciation or depreciation, if any, attributable to investments in the phantom shares of our Common Stock, since these investments can only be settled in shares of our Common Stock. For 1999, we recorded a benefit of $3 million related to depreciation of investments in phantom shares of our Common Stock impacted by the January 2000 plan amendment. We also reduced our liabilities by $12 million related to investments in the phantom shares of our Common Stock and increased the Common Stock Account by the same amount at January 1, 2000.

Our cash obligations under the EID Plan as of the end of 2001 and 2000 were $24 million and $27 million, respectively. We recognized compensation expense of $4 million in 2001 and $6 million in both 2000 and 1999 for the EID Plan.

We sponsor a contributory plan to provide retirement benefits under the provisions of Section 401(k) of the Internal Revenue Code (the "401(k) Plan") for eligible full-time U.S. salaried and certain hourly employees. Participants may elect to contribute up to 15% of eligible compensation on a pre-tax basis. Effective October 1, 2001 the 401(k) Plan was amended such that the Company matches 100% of the participant's contribution up to 3% of eligible compensation and 50% of the participant's contribution on the next 2% of eligible compensation. Prior to this amendment, we made a discretionary matching contribution equal to a predetermined percentage of each participant's contribution to the TRICON Common Stock Fund. We determined our percentage match at the beginning of each year based on the immediate prior year performance of our Concepts. All matching contributions are made to the TRICON Common Stock Fund. We recognized as compensation expense our total matching contribution of $5 million in 2001 and $4 million in both 2000 and 1999.

NOTE 18 SHAREHOLDERS' RIGHTS PLAN

In July 1998, our Board of Directors declared a dividend distribution of one right for each share of Common Stock outstanding as of August 3, 1998 (the "Record Date"). Each right initially entitles the registered holder to purchase a unit consisting of one one-thousandth of a share (a "Unit") of Series A Junior Participating Preferred Stock, without par value, at a purchase price of $130 per Unit, subject to adjustment. The rights, which do not have voting rights, will become exercisable for our Common Stock ten business days following a public announcement that a person or group has acquired, or has commenced or intends to commence a tender offer for, 15% or more, or 20% or more if such person or group owned 10% or more on the adoption date of this plan, of our Common Stock. In the event the rights become exercisable for Common Stock, each right will entitle its holder (other than the Acquiring Person as defined in the Agreement) to purchase, at the right's then-current exercise price, TRICON Common Stock having a value of twice the exercise price of the right. In the event the rights become exercisable for Common Stock and thereafter we are acquired in a merger or other business combination, each right will entitle its holder to purchase, at the right's then-current exercise price, common stock of the acquiring company having a value of twice the exercise price of the right.

We can redeem the rights in their entirety, prior to becoming exercisable, at $0.01 per right under certain specified conditions. The rights expire on July 21, 2008, unless we extend that date or we have earlier redeemed or exchanged the rights as provided in the Agreement.

This description of the rights is qualified in its entirety by reference to the Rights Agreement between TRICON and BankBoston, N.A., as Rights Agent, dated as of July 21, 1998 (including the exhibits thereto).

NOTE 19 SHARE REPURCHASE PROGRAM

In February 2001, our Board of Directors authorized a share repurchase program. This program authorizes us to repurchase, through February 14, 2003, up to $300 million (excluding applicable transaction fees) of our outstanding Common Stock. During 2001, we repurchased approximately 2.4 million shares for approximately $100 million at an average price per share of approximately $42. Based on market conditions and other factors, additional repurchases may be made from time to time in the open market or through privately negotiated transactions at the discretion of the Company.

In 1999, our Board of Directors authorized the repurchase of up to $350 million (excluding applicable transaction fees) of our outstanding Common Stock. This share repurchase program was completed in the second quarter of 2000. During 2000, we repurchased approximately 6.4 million shares for $216 million at an average price per share of $34. During 1999, we repurchased over 3.3 million shares for approximately $134 million at an average price of $40 per share.

NOTE 20 INCOME TAXES

The details of our income tax provision (benefit) are set forth below:

	2001	2000	1999
Current:			
Federal	**$ 200**	$ 215	$ 342
Foreign	**75**	66	46
State	**38**	41	39
	313	322	427
Deferred:			
Federal	**(29)**	(11)	(18)
Foreign	**(33)**	(9)	17
State	**(10)**	(31)	(15)
	(72)	(51)	(16)
	$ 241	$ 271	$ 411

Taxes payable were reduced by $13 million, $5 million and $14 million in 2001, 2000 and 1999, respectively, as a result of stock option exercises. In addition, goodwill and other intangibles were reduced by $8 million and $2 million in 2001 and 2000, respectively, as a result of the settlement of a disputed claim with the Internal Revenue Service relating to the deductibility of reacquired franchise rights and other intangibles. These reductions were offset by reductions in deferred and accrued taxes payable.

In 2001, valuation allowances related to deferred tax assets in certain states and foreign countries were reduced by $9 million ($6 million, net of federal tax) and $6 million, respectively, as a result of making a determination that it is more likely than not that these assets will be utilized in the current and future years. In 2000, valuation allowances related to deferred tax assets in certain states and foreign countries were reduced by $35 million ($23 million, net of federal tax) and $6 million, respectively, as a result of making a determination that it is more likely than not that these assets will be utilized in the current and future years. In 1999, valuation allowances related to deferred tax assets in certain foreign countries were reduced by $13 million for the same reason.

The deferred foreign tax provision for 2001 included a $2 million charge to reflect the impact of changes in statutory tax rates in various countries. The impact of statutory rate changes in foreign countries was less than $1 million in 2000. The 1999 deferred foreign provision included a benefit of $1 million.

U.S. and foreign income before income taxes are set forth below:

	2001	2000	1999
U.S.	**$ 599**	$ 537	$ 902
Foreign	**134**	147	136
	$ 733	$ 684	$1,038

The reconciliation of income taxes calculated at the U.S. federal tax statutory rate to our effective tax rate is set forth below:

	2001	2000	1999
U.S. federal statutory rate	**35.0%**	35.0%	35.0%
State income tax, net of federal tax benefit	**2.1**	3.3	3.0
Foreign and U.S. tax effects attributable to foreign operations	**0.7**	0.2	2.8
Effect of unusual items	**0.1**	(0.5)	(0.5)
Adjustments relating to prior years	**(3.2)**	5.5	0.8
Valuation allowance reversals	**(1.7)**	(4.2)	(1.3)
Other, net	**(0.2)**	0.3	(0.3)
Effective income tax rate	**32.8%**	39.6%	39.5%

The details of 2001 and 2000 deferred tax liabilities (assets) are set forth below:

	2001	2000
Intangible assets and property, plant and equipment	$ 176	$ 184
Other	29	35
Gross deferred tax liabilities	$ 205	$ 219
Net operating loss and tax credit carryforwards	$ (171)	$ (142)
Employee benefits	(73)	(82)
Self-insured casualty claims	(62)	(55)
Various liabilities and other	(274)	(214)
Gross deferred tax assets	(580)	(493)
Deferred tax assets valuation allowances	130	132
Net deferred tax assets	(450)	(361)
Net deferred tax (assets) liabilities	$ (245)	$ (142)
Reported in Consolidated Balance Sheets as:		
Deferred income tax assets	$ (79)	$ (75)
Other assets	(166)	(78)
Accounts payable and other current liabilities	—	1
Deferred income taxes	—	10
	$ (245)	$ (142)

Our valuation allowance related to deferred tax assets decreased by $2 million in 2001 primarily due to the previously discussed change in circumstances, partially offset by increases in valuation allowances related to deferred tax assets in certain foreign countries and states.

A determination of the unrecognized deferred tax liability for temporary differences related to our investments in foreign subsidiaries and investments in foreign unconsolidated affiliates that are essentially permanent in duration is not practicable.

We have available net operating loss and tax credit carryforwards totaling approximately $1.1 billion at December 29, 2001 to reduce future tax of TRICON and certain subsidiaries. The carryforwards are related to a number of foreign and state jurisdictions. Of these carryforwards, $15 million expire in 2002 and $910 million expire at various times between 2003 and 2020. The remaining carryforwards of approximately $150 million do not expire.

NOTE 21 REPORTABLE OPERATING SEGMENTS

We are engaged principally in developing, operating, franchising and licensing the worldwide KFC, Pizza Hut and Taco Bell concepts. KFC, Pizza Hut and Taco Bell operate throughout the U.S. and in 84, 86 and 13 countries and territories outside the U.S., respectively. Our five largest international markets based on operating profit in 2001 are Australia, Canada, China, Korea and the United Kingdom. At December 29, 2001, we had investments in 10 unconsolidated affiliates outside the U.S. which operate KFC and/or Pizza Hut restaurants. These unconsolidated affiliates operate in Canada, China, Japan, Poland and the United Kingdom.

We identify our operating segments based on management responsibility within the U.S. and International. For purposes of applying SFAS No. 131 "Disclosure About Segments of An Enterprise and Related Information" we consider our three U.S. Concept operating segments to be similar and therefore have aggregated them into a single reportable operating segment. Other than the U.S., no individual country represented 10% or more of our total revenues, operating profit or assets.

Revenues	2001	2000	1999
United States	$ 4,827	$ 5,062	$ 5,748
International	2,126	2,031	2,074
	$ 6,953	$ 7,093	$ 7,822

Operating Profit; Interest Expense, Net; and Income Before Income Taxes	2001	2000	1999
United States	$ 722	$ 742	$ 828
International[a]	318	309	265
Unallocated and corporate expenses	(148)	(163)	(180)
Foreign exchange net (loss)	(3)	—	(3)
Facility actions net (loss) gain[b]	(1)	176	381
Unusual items income (expense)[b]	3	(204)	(51)
Total operating profit	891	860	1,240
Interest expense, net	158	176	202
Income before income taxes	$ 733	$ 684	$ 1,038

Depreciation and Amortization	2001	2000	1999
United States	$ 224	$ 231	$ 266
International	117	110	110
Corporate	13	13	10
	$ 354	$ 354	$ 386

Capital Spending	2001	2000	1999
United States	$ 392	$ 370	$ 315
International	232	192	139
Corporate	12	10	16
	$ 636	$ 572	$ 470

Identifiable Assets	2001	2000	1999
United States	$ 2,489	$ 2,400	$ 2,444
International[c]	1,593	1,501	1,367
Corporate[d]	306	248	150
	$ 4,388	$ 4,149	$ 3,961

Long-lived Assets[e]	2001	2000	1999
United States	$ 2,203	$ 2,101	$ 2,143
International	987	828	874
Corporate	45	30	41
	$ 3,235	$ 2,959	$ 3,058

(a) Includes equity income of unconsolidated affiliates of $26 million, $25 million and $22 million in 2001, 2000 and 1999, respectively.

(b) See Note 5 for a discussion by reportable operating segment of facility actions net (loss) gain and unusual items income (expense).

(c) Includes investment in unconsolidated affiliates of $213 million, $257 million and $170 million for 2001, 2000 and 1999, respectively.

(d) Primarily includes deferred tax assets, Property, Plant and Equipment related to our office facilities, fair value of derivative instruments, accounts receivable arising from the AmeriServe bankruptcy reorganization process and unamortized debt issuance costs.

(e) Includes Property, Plant and Equipment, net and Intangible Assets, net.

See Note 5 for additional operating segment disclosures related to impairment and the carrying amount of assets held for disposal.

NOTE 22 COMMITMENTS AND CONTINGENCIES

AmeriServe Bankruptcy Reorganization Process

We and our franchisees and licensees are dependent on frequent replenishment of the food ingredients and paper supplies required by our restaurants. We and a large number of our franchisees and licensees operated under multi-year contracts, which were assumed by McLane Company, Inc. ("McLane"), that had required the use of AmeriServe to purchase and make deliveries of most of these supplies. AmeriServe filed for protection under Chapter 11 of the U.S. Bankruptcy Code on January 31, 2000. A plan of reorganization for AmeriServe (the "POR") was approved by the U.S. Bankruptcy Court on November 28, 2000.

During the AmeriServe bankruptcy reorganization process, we took a number of actions to ensure continued supply to our system. These actions resulted in a total expense of $170 million which was recorded as unusual items in 2000. These costs included the net funding of $70 million under a debtor-in possession revolving credit facility, $59 million of net charges related to the global settlement with holders of allowed secured and administrative priority claims in the bankruptcy and other costs of $41 million. The other costs included allowances for estimated uncollectible receivables arising from supply sales to our franchisees and licensees under a temporary program. The costs also included incremental interest expenses arising from the additional debt required to finance inventory purchases and the receivables arising from these supply sales. In 2001, we recorded unusual items income of $21 million related to net recoveries of residual assets and certain preference claims under the POR. We will record additional recoveries, if any, as unusual items as they are realized.

Other Commitments and Contingencies

Contingent Liabilities

We were directly or indirectly contingently liable in the amounts of $353 million and $401 million at year-end 2001 and 2000, respectively, for certain lease assignments and guarantees. At December 29, 2001, $293 million represented contingent liabilities to lessors as a result of assigning our interest in and obligations under real estate leases as a condition to the refranchising of certain Company restaurants, the contribution of certain Company restaurants to unconsolidated affiliates and guarantees of certain other leases. The $293 million represented the present value of the minimum payments of the assigned leases, excluding any renewal option periods, discounted at our pre-tax cost of debt. On a nominal basis, the contingent liability resulting from the assigned leases is $435 million.

The contingent liabilities also include guarantees of approximately $32.4 million to support financial arrangements of certain franchisees, including partial guarantees of franchisee loan pools originated primarily in connection with the Company's refranchising programs. The total loans outstanding under these loan pools were approximately $180 million at December 29, 2001. In support of these guarantees, we have posted $32.4 million of letters of credit. Also, TRICON provides a standby letter of credit under which TRICON could potentially be required to fund a portion (up to $25 million) of one of the franchisee loan pools. Any such funding under the standby letter of credit would be secured by franchisee loan collateral. We believe that we have appropriately provided for our estimated probable exposures under these contingent liabilities. These provisions were primarily charged to refranchising (gains) losses.

The remaining contingent liabilities of $28 million primarily related to our guarantees of financial arrangements of certain unconsolidated affiliates and third parties. These financial arrangements primarily include lines of credit, loans and letters of credit. If all lines of credit and letters of credit were fully drawn down, the maximum contingent liability under these arrangements would be approximately $56 million as of December 29, 2001.

Insurance Programs

We are currently self-insured for a portion of our current and prior years' losses related to workers' compensation, general liability and automobile liability insurance programs (collectively, "casualty loss[es]") as well as property losses and certain other insurable risks. To mitigate the cost of our exposures for certain property and casualty losses, we make annual decisions to either retain the risks of loss up to certain maximum per occurrence or aggregate loss limits negotiated with our insurance carriers or to fully insure those risks. Since the Spin-off, we have elected to retain the risks subject to certain insured limitations. Effective August 16, 1999, we made changes to our U.S. and portions of our International property and casualty insurance programs. For fiscal years 2001, 2000 and the period from August 16, 1999 through the end of fiscal year 1999, we have bundled our risks

for casualty losses, property losses and various other insurable risks into one pool with a single self-insured retention and have purchased reinsurance coverage up to a specified limit which is significantly above our actuarially determined probable losses. We are self-insured for losses in excess of the reinsurance limit. We believe the likelihood of losses exceeding the reinsurance limit is remote. We are also self-insured for healthcare claims for eligible participating employees subject to certain deductibles and limitations. We have accounted for our retained liabilities for property and casualty losses and healthcare claims, including reported and incurred but not reported claims, based on information provided by our independent actuaries.

Due to the inherent volatility of our property and actuarially determined casualty loss estimates, it is reasonably possible that we could experience changes in estimated losses which could be material to our growth in quarterly and annual net income. We believe that we have recorded our reserves for property and casualty losses at a level which has substantially mitigated the potential negative impact of adverse developments and/or volatility.

Change of Control Severance Agreements

In September 2000, the Compensation Committee of the Board of Directors approved renewing severance agreements with certain key executives (the "Agreements") that were set to expire on December 31, 2000. These Agreements are triggered by a termination, under certain conditions, of the executive's employment following a change in control of the Company, as defined in the Agreements. If triggered, the affected executives would generally receive twice the amount of both their annual base salary and their annual incentive in a lump sum, outplacement services and a tax gross-up for any excise taxes. These Agreements have a three-year term and automatically renew each January 1 for another three-year term unless the Company elects not to renew the Agreements. Since the timing of any payments under these Agreements cannot be anticipated, the amounts are not estimable. However, these payments, if made, could be substantial. In the event of a change of control, rabbi trusts would be established and used to provide payouts under existing deferred and incentive compensation plans.

Wage and Hour Litigation

We are subject to various claims and contingencies related to lawsuits, taxes, environmental and other matters arising out of the normal course of business. Like certain other large retail employers, Pizza Hut and Taco Bell have been faced in certain states with allegations of purported class-wide wage and hour violations.

On August 29, 1997, a class action lawsuit against Taco Bell Corp., entitled *Bravo, et al. v. Taco Bell Corp. ("Bravo")*, was filed in the Circuit Court of the State of Oregon of the County of Multnomah. The lawsuit was filed by two former Taco Bell shift managers purporting to represent approximately 17,000 current and former hourly employees statewide. The lawsuit alleges violations of state wage and hour laws, principally involving unpaid wages including overtime, and rest and meal period violations, and seeks an unspecified amount in damages. Under Oregon class action procedures, Taco Bell was allowed an opportunity to "cure" the unpaid wage and hour allegations by opening a claims process to all putative class members prior to certification of the class. In this cure process, Taco Bell has paid out less than $1 million. On January 26, 1999, the Court certified a class of all current and former shift managers and crew members who claim one or more of the alleged violations. A trial date of November 2, 1999 was set. However, on November 1, 1999, the Court issued a proposed order postponing the trial and establishing a pre-trial claims process. The final order regarding the claims process was entered on January 14, 2000. Taco Bell moved for certification of an immediate appeal of the Court-ordered claims process and requested a stay of the proceedings. This motion was denied on February 8, 2000. Taco Bell appealed this decision to the Supreme Court of Oregon and the Court denied Taco Bell's Writ of Mandamus on March 21, 2000. A Court-approved notice and claim form was mailed to approximately 14,500 class members on January 31, 2000. The Court ordered pre-trial claims process went forward, and hearings to determine potential damages were held for claimants employed or previously employed in four selected Taco Bell units. After the initial hearings relating to these four units, the damage claims hearings were discontinued. Trial began on January 4, 2001. On March 9, 2001, the jury reached verdicts on the substantive issues in this matter. A number of these verdicts were in favor of the Taco Bell position; however, certain issues were decided in favor of the plaintiffs. The Court reduced the number of potential claimants to 1,100. A jury trial to determine the damages of 93 of those claimants began on February 25, 2002, and is expected to last six to eight weeks.

We have provided for the estimated costs of the Bravo litigation, based on a projection of eligible claims (including claims filed to date, where applicable), the cost of each eligible claim,

the estimated legal fees incurred by plaintiffs and the results of settlement negotiations in this and other wage and hour litigation matters. Although the outcome of this case cannot be determined at this time, we believe the ultimate cost of this case in excess of the amounts already provided will not be material to our annual results of operations, financial condition or cash flows. Any provisions have been recorded as unusual items.

On May 11, 1998, a purported class action lawsuit against Pizza Hut, Inc., and one of its franchisees, PacPizza, LLC, entitled *Aguardo, et al. v. Pizza Hut, Inc., et al., ("Aguardo")*, was filed in the Superior Court of the State of California of the County of San Francisco. The lawsuit was filed by three former Pizza Hut restaurant general managers purporting to represent approximately 1,300 current and former California restaurant general managers of Pizza Hut and PacPizza, LLC. The lawsuit alleged violations of state wage and hour laws involving unpaid overtime wages and vacation pay and sought an unspecified amount in damages. On January 12, 2000, the Court certified a class of approximately 1,300 current and former restaurant general managers. The Court amended the class on June 1, 2000 to include approximately 150 additional current and former restaurant general managers. On May 2, 2001, the parties reached an agreement to settle this matter and entered into a stipulation of discontinuance of the case. The Court granted preliminary approval of the settlement on September 27, 2001, and final approval of the settlement on December 20, 2001. As no objections to the settlement were made, the Court's order approving the settlement and dismissing with prejudice all claims is final and non-appealable. We have provided for the costs of this settlement as unusual items.

On October 2, 1996, a class action lawsuit against Taco Bell Corp., entitled *Mynaf, et al. v. Taco Bell Corp.*, was filed in the Superior Court of the State of California of the County of Santa Clara. The lawsuit was filed by two former restaurant general managers and two former assistant restaurant general managers purporting to represent all current and former Taco Bell restaurant general managers and assistant restaurant general managers in California. The lawsuit alleged violations of California wage and hour laws involving unpaid overtime wages and violations of the State Labor Code's record-keeping requirements. The complaint also included an unfair business practices claim. Plaintiffs claimed individual damages ranging from $10,000 to $100,000 each. On September 17, 1998, the court certified a class of approximately 3,000 current and former assistant restaurant general managers and restaurant general managers. Taco Bell petitioned the appellate court to review the trial court's certification order. The petition was denied on December 31, 1998. Taco Bell then filed a petition for review with the California Supreme Court, and the petition was subsequently denied. Class notices were mailed on August 31, 1999 to over 3,400 class members. Trial began on January 29, 2001. Before conclusion of the trial, the parties reached an agreement to settle this matter, and entered into a stipulation of discontinuance of the case. This settlement agreement was approved by the court on September 21, 2001. We have provided for the costs of this settlement as unusual items.

Other Litigation

On January 16, 1998, a lawsuit against Taco Bell Corp., entitled *Wrench LLC, Joseph Shields and Thomas Rinks v. Taco Bell Corp. ("Wrench")* was filed in the United States District Court for the Western District of Michigan. The lawsuit alleges that Taco Bell Corp. misappropriated certain ideas and concepts used in its advertising featuring a Chihuahua. Plaintiffs seek to recover damages under several theories, including breach of implied-in-fact contract, idea misappropriation, conversion and unfair competition. On June 10, 1999, the District Court granted summary judgment in favor of Taco Bell Corp. Plaintiffs filed an appeal with the U.S. Court of Appeals for the Sixth Circuit (the "Court of Appeals"), and oral arguments were held on September 20, 2000. On July 6, 2001, the Court of Appeals reversed the District Court's judgment in favor of Taco Bell Corp. and remanded the case to the District Court. Taco Bell Corp. unsuccessfully petitioned the Court of Appeals for rehearing en banc, and its petition for writ of certiorari to the United States Supreme Court was denied on January 21, 2002. The case has now officially been returned to the District Court, where the Wrench plaintiffs will be allowed to bring their claims to trial.

We believe that the Wrench plaintiffs' claims are without merit and are vigorously defending the case. However, in view of the inherent uncertainties of litigation, the outcome of the case cannot be predicted at this time. Likewise, the amount of any potential loss cannot be reasonably estimated.

C&F Packing Co., Inc. v. Pizza Hut, Inc. This action was originally filed in 1993 by C&F Packing Co., Inc., a Chicago meat packing company ("C&F"), in the United States District Court for the Northern District of Illinois. This lawsuit alleges that Pizza Hut misappropriated various trade secrets relating to C&F's alleged process for manufacturing a precooked Italian sausage

pizza topping. C&F's trade secret claims against Pizza Hut were originally dismissed by the trial court on statute of limitations grounds. That ruling was later overturned by the U.S. Court of Appeals for the Federal Circuit in August 2000 and the case was remanded to the trial court for further proceedings. On remand, Pizza Hut moved for summary judgment on its statute of limitations defense. That motion was denied in January 2001. This lawsuit was scheduled for trial in late January 2002. Prior to trial, the parties entered into a written settlement agreement pursuant to which C&F agreed to dismiss the case in exchange for a lump sum payment from Pizza Hut. This payment has been made and the case was dismissed with prejudice effective February 6, 2002. We have provided for the costs of this settlement as unusual items in 2001.

Obligations to PepsiCo, Inc. After Spin-off

In connection with the Spin-off, we entered into separation and other related agreements (the "Separation Agreements"), governing the Spin-off transaction and our subsequent relationship with PepsiCo. These agreements provide certain indemnities to PepsiCo.

The Separation Agreements provided for, among other things, our assumption of all liabilities relating to the restaurant businesses, including California Pizza Kitchen, Chevys Mexican Restaurant, D'Angelo's Sandwich Shops, East Side Mario's and Hot 'n Now (collectively the "Non-core Businesses"), and our indemnification of PepsiCo with respect to these liabilities. We have included our best estimates of these liabilities in the accompanying Consolidated Financial Statements.

In addition, we have indemnified PepsiCo for any costs or losses it incurs with respect to all letters of credit, guarantees and contingent liabilities relating to our businesses under which PepsiCo remains liable. As of December 29, 2001, PepsiCo remains liable for approximately $94 million on a nominal basis related to these contingencies. This obligation ends at the time PepsiCo is released, terminated or replaced by a qualified letter of credit. We have not been required to make any payments under this indemnity.

Under the Separation Agreements, PepsiCo maintains full control and absolute discretion with regard to any combined or consolidated tax filings for periods through October 6, 1997. PepsiCo also maintains full control and absolute discretion regarding any common tax audit issues. Although PepsiCo has contractually agreed to, in good faith, use its best efforts to settle all joint interests in any common audit issue on a basis consistent with prior practice, there can be no assurance that determinations made by PepsiCo would be the same as we would reach, acting on our own behalf. Through December 29, 2001, there have not been any determinations made by PepsiCo where we would have reached a different determination.

We also agreed to certain restrictions on our actions to help ensure that the Spin-off maintained its tax-free status. These restrictions, which were generally applicable to the two-year period following October 6, 1997, included among other things, limitations on any liquidation, merger or consolidation with another company, certain issuances and redemptions of our Common Stock, our granting of stock options and our sale, refranchising, distribution or other disposition of assets. If we failed to abide by these restrictions or to obtain waivers from PepsiCo and, as a result, the Spin-off fails to qualify as a tax-free reorganization, we may be obligated to indemnify PepsiCo for any resulting tax liability, which could be substantial. No payments under these indemnities have been required or are expected to be required. Additionally, PepsiCo is entitled to the federal income tax benefits related to the exercise after the Spin-off of vested PepsiCo options held by our employees. We expense the payroll taxes related to the exercise of these options as incurred.

NOTE 23 SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

2001	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues:					
Company sales	$ 1,326	$ 1,416	$ 1,449	$ 1,947	$ 6,138
Franchise and license fees	180	189	191	255	815
Total revenues	1,506	1,605	1,640	2,202	6,953
Total costs and expenses, net	1,330	1,390	1,409	1,933	6,062
Operating profit	176	215	231	269	891
Net income	88	116	124	164	492
Diluted earnings per common share	0.59	0.76	0.81	1.08	3.24
Operating profit attributable to:					
Facility actions net loss (gain)	2	(18)	(9)	26	1
Unusual items (income) expense	2	(4)	—	(1)	(3)

2000	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues:					
Company sales	$ 1,425	$ 1,480	$ 1,470	$ 1,930	$ 6,305
Franchise and license fees	172	176	188	252	788
Total revenues	1,597	1,656	1,658	2,182	7,093
Total costs and expenses, net	1,355	1,436	1,526	1,916	6,233
Operating profit	242	220	132	266	860
Net income	120	106	59	128	413
Diluted earnings per common share	0.80	0.71	0.40	0.86	2.77
Operating profit attributable to:					
Facility actions net (gain)	(47)	(66)	(3)	(60)	(176)
Unusual items expense	4	72	92	36	204

See Note 5 for details of facility actions net loss (gain) and unusual items (income) expense.

Management's Responsibility for Financial Statements

TO OUR SHAREHOLDERS:

We are responsible for the preparation, integrity and fair presentation of the Consolidated Financial Statements, related notes and other information included in this annual report. The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America and include certain amounts based upon our estimates and assumptions, as required. Other financial information presented in the annual report is derived from the financial statements.

We maintain a system of internal control over financial reporting, designed to provide reasonable assurance as to the reliability of the financial statements, as well as to safeguard assets from unauthorized use or disposition. The system is supported by formal policies and procedures, including an active Code of Conduct program intended to ensure employees adhere to the highest standards of personal and professional integrity. Our internal audit function monitors and reports on the adequacy of and compliance with the internal control system, and appropriate actions are taken to address significant control deficiencies and other opportunities for improving the system as they are identified.

The Consolidated Financial Statements have been audited and reported on by our independent auditors, KPMG LLP, who were given free access to all financial records and related data, including minutes of the meetings of the Board of Directors and Committees of the Board. We believe that management representations made to the independent auditors were valid and appropriate.

The Audit Committee of the Board of Directors, which is composed solely of outside directors, provides oversight to our financial reporting process and our controls to safeguard assets through periodic meetings with our independent auditors, internal auditors and management. Both our independent auditors and internal auditors have free access to the Audit Committee.

Although no cost-effective internal control system will preclude all errors and irregularities, we believe our controls as of December 29, 2001 provide reasonable assurance that our assets are reasonably safeguarded.

David J. Deno
Chief Financial Officer

Report of Independent Auditors

THE BOARD OF DIRECTORS
TRICON GLOBAL RESTAURANTS, INC.:

We have audited the accompanying consolidated balance sheets of TRICON Global Restaurants, Inc. and Subsidiaries ("TRICON") as of December 29, 2001 and December 30, 2000, and the related consolidated statements of income, cash flows and shareholders' equity (deficit) and comprehensive income for each of the years in the three-year period ended December 29, 2001. These consolidated financial statements are the responsibility of TRICON's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TRICON as of December 29, 2001 and December 30, 2000, and the results of its operations and its cash flows for each of the years in the three-year period ended December 29, 2001, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

KPMG LLP
Louisville, Kentucky
February 7, 2002, except as to Note 12
which is as of February 22, 2002

Selected Financial Data

(in millions, except per share and unit amounts)	Fiscal Year 2001	2000	1999	1998	1997
Summary of Operations					
System sales[a]					
U.S.	**$14,596**	$14,514	$14,516	$14,013	$13,502
International	**7,732**	7,645	7,246	6,607	6,963
Total	**22,328**	22,159	21,762	20,620	20,465
Revenues					
Company sales[b]	**6,138**	6,305	7,099	7,852	9,112
Franchise and license fees	**815**	788	723	627	578
Total	**6,953**	7,093	7,822	8,479	9,690
Facility actions net (loss) gain[c]	**(1)**	176	381	275	(247)
Unusual items income (expense)[c][d]	**3**	(204)	(51)	(15)	(184)
Operating profit	**891**	860	1,240	1,028	241
Interest expense, net	**158**	176	202	272	276
Income (loss) before income taxes	**733**	684	1,038	756	(35)
Net income (loss)	**492**	413	627	445	(111)
Basic earnings per common share[e]	**3.36**	2.81	4.09	2.92	N/A
Diluted earnings per common share[e]	**3.24**	2.77	3.92	2.84	N/A
Cash Flow Data					
Provided by operating activities	**$ 832**	$ 491	$ 565	$ 674	$ 810
Capital spending, excluding acquisitions	**636**	572	470	460	541
Proceeds from refranchising of restaurants	**111**	381	916	784	770
Balance Sheet					
Total assets	**$ 4,388**	$ 4,149	$ 3,961	$ 4,531	$ 5,114
Operating working capital deficit[f]	**(707)**	(634)	(832)	(960)	(1,073)
Long-term debt	**1,552**	2,397	2,391	3,436	4,551
Total debt	**2,248**	2,487	2,508	3,532	4,675
Other Data					
Number of stores at year end[a]					
Company	**6,435**	6,123	6,981	8,397	10,117
Unconsolidated Affiliates	**2,000**	1,844	1,178	1,120	1,090
Franchisees	**19,263**	19,287	18,414	16,650	15,097
Licensees	**2,791**	3,163	3,409	3,596	3,408
System	**30,489**	30,417	29,982	29,763	29,712
U.S. Company same store sales growth[a]					
KFC	**3%**	(3)%	2%	3%	2%
Pizza Hut	**—**	1%	9%	6%	(1)%
Taco Bell	**—**	(5)%	—	3%	2%
Blended	**1%**	(2)%	4%	4%	1%
Shares outstanding at year end (in millions)	**146**	147	151	153	152
Market price per share at year end	**$ 49.24**	$ 33.00	$ 37.94	$ 47.63	$ 28.31

N/A – Not Applicable

TRICON Global Restaurants, Inc. and Subsidiaries ("TRICON") became an independent, publicly owned company on October 6, 1997 through the spin-off of the restaurant operations of its former parent, PepsiCo, Inc. ("PepsiCo"), to its shareholders. The 1997 consolidated financial data was prepared as if we had been an independent, publicly owned company for that period. To facilitate this presentation, PepsiCo made certain allocations of its previously unallocated interest and general and administrative expenses as well as pro forma computations, to the extent possible, of separate income tax provisions for its restaurant segment. Fiscal years 2001, 1999, 1998 and 1997 include 52 weeks. Fiscal year 2000 includes 53 weeks. The selected financial data should be read in conjunction with the Consolidated Financial Statements and the Notes thereto.

(a) Excludes Non-core Businesses, which were disposed of in 1997. See Note 22 to the Consolidated Financial Statements.

(b) Declining Company sales are largely the result of our refranchising initiatives.

(c) In the fourth quarter of 1997, we recorded a $530 million charge of which $410 million was recorded in facility actions net (loss) and $120 million was recorded in unusual items. The charge included (a) costs of closing stores; (b) reductions to fair market value, less cost to sell, of the carrying amounts of certain restaurants that we intended to refranchise; (c) impairments of certain restaurants intended to be used in the business; (d) impairments of certain unconsolidated affiliates to be retained; and (e) costs of related personnel reductions. In 1999, we recorded favorable adjustments of $13 million in facility actions net gain and $11 million in unusual items related to our 1997 fourth quarter charge. In 1998, we recorded favorable adjustments of $54 million in facility actions net gain and $11 million in unusual items related to our 1997 fourth quarter charge.

(d) See Note 5 to the Consolidated Financial Statements for a description of unusual items income (expense) in 2001, 2000 and 1999. 1997 included $54 million related to the disposal of the Non-core Businesses.

(e) EPS data has been omitted for 1997 as our capital structure as an independent, publicly owned company did not exist.

(f) Operating working capital deficit is current assets excluding cash and cash equivalents and short-term investments, less current liabilities excluding short-term borrowings.

Board of Directors

David C. Novak 49
Chairman, Chief Executive Officer and President, Tricon

Andrall E. Pearson 76
Founding Chairman, Tricon

D. Ronald Daniel 72
Treasurer, Harvard University,
Former Managing Partner, McKinsey and Company

James Dimon 46
Chairman and Chief Executive Officer, Bank One Corporation

Massimo Ferragamo 44
President and Vice Chairman, Ferragamo USA, Inc.,
a subsidiary of Salvatore Ferragamo Italia

Robert Holland, Jr. 61
Former owner and Chief Executive Officer, WorkPlace Integrators, Michigan's largest Steelcase office furniture dealer

Sidney Kohl 71
Former Chairman, Kohl's Supermarkets,
Founder, Kohl's Department Stores

Kenneth Langone 66
Founder, Chairman of the Board and Chief Executive Officer, Invemed Associates, LLC, an investment banking firm,
Founder, Home Depot, Inc.

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Chairman of the Board, Harman Management Corporation

Robert J. Ulrich 58
Chairman and Chief Executive Officer, Target Corporation and Target Stores

Jeanette S. Wagner 72
Vice Chairman, Estee Lauder Companies, Inc.

John L. Weinberg 77
Director, Goldman Sachs Group, Inc.

Executive Officers

David C. Novak 49
Chairman, Chief Executive Officer and President, Tricon

Cheryl Bachelder 45
President and Chief Concept Officer, KFC, U.S.A.

Peter A. Bassi 52
President, Tricon Restaurants International

Jonathan D. Blum 43
Senior Vice President, Public Affairs, Tricon

Emil J. Brolick 54
President and Chief Concept Officer, Taco Bell, U.S.A.

Christian Campbell 51
Senior Vice President, General Counsel and Secretary, Tricon

Mark S. Cosby 43
Chief Operating Officer, KFC, U.S.A.

David J. Deno 44
Chief Financial Officer, Tricon

Peter R. Hearl 50
Chief People Officer, Tricon
Executive Vice President, Tricon Restaurants International

Aylwin B. Lewis 47
Chief Operating Officer, Tricon

Michael A. Miles 40
Chief Operating Officer, Pizza Hut, U.S.A.

Robert T. Nilsen 42
Chief Operating Officer, Taco Bell, U.S.A.

Denise L. Ramos 45
Senior Vice President, Treasurer, Tricon

Charles E. Rawley 51
Chief Development Officer, Tricon

Michael S. Rawlings 47
President and Chief Concept Officer, Pizza Hut, U.S.A.

Brent A. Woodford 39
Vice President and Controller, Tricon

Shareholder Information

Annual Meeting The Annual Meeting of Shareholders will be at Tricon's headquarters, Louisville, KY at 9:00 a.m. (EDT), Thursday, May 16, 2002. Proxies for the meeting will be solicited by an independent proxy solicitor. This Annual Report is not part of the proxy solicitation.

INQUIRIES REGARDING YOUR STOCK HOLDINGS

Registered Shareholders (shares held by you in your name) should address communications concerning statements, dividend payments, address changes, lost certificates and other administrative matters to:

Tricon Global Restaurants, Inc.
c/o EquiServe, L.P.
P.O. Box 43016
Providence, RI 02940-3016
Telephone: (888) 439-4986
www.equiserve.com
or
Shareholder Analyst
Tricon Global Restaurants, Inc.
1441 Gardiner Lane, Louisville, KY 40213
Telephone: (888) 2yumyum
email: tricon.investor@tricon-yum.com
Internet: www.triconglobal.com

In all correspondence or telephone inquires, please mention Tricon, your name as printed on your statement or stock certificate, your social security number, your address and telephone number.

Beneficial Shareholders (shares held in the name of your bank or broker) should direct communications on all administrative matters to your stockbroker.

Tricon YUMBUCKS and SharePower Participants (employees with YUMBUCKS options or SharePower options) should address all questions regarding your account, outstanding options or shares received through option exercises to:

Merrill Lynch/SharePower
Stock Option Plan Services
P.O. Box 30446
New Brunswick, NJ 08989-0446
Telephone: (800) 637-2432 (U.S., Puerto Rico and Canada)
(732) 560-9444 (all other locations)

In all correspondence, please provide your account number (for U.S. citizens, this is your social security number), your address, your telephone number and mention either Tricon YUMBUCKS or SharePower. For telephone inquiries, please have a copy of your most recent statement available.

Employee Benefit Plan Participants

Direct Stock Purchase Program	(888) 439-4986
Tricon 401(k) Plan	(888) 875-4015
Tricon Savings Center	(617) 847-1013
P.O. Box 1389	*(outside U.S.)*
Boston, MA 02104-1389	

Please have a copy of your most recent statement available when calling. Press *0 for a customer service representative and give the representative the name of the Plan.

Shareholder Services

Direct Stock Purchase Plan A brochure explaining this convenient plan is available from our transfer agent:

EquiServe, L.P.
P.O. Box 43016
Providence, RI 02940-3016
(888) 439-4986
www.equiserve.com

Low-Cost Investment Plan Investors may purchase their initial share of stock through NAIC's Low-Cost Investment Plan. For details contact:

National Association of Investors Corporation (NAIC)
711 West Thirteen Mile Road
Madison Heights, MI 48071
(877) ASK-NAIC (275-6242)
www.better-investing.org

Financial and Other Information Earnings and other financial results, corporate news and company information are now available on Tricon's Web site: www.triconglobal.com

Copies of Tricon's SEC Form 8-K, 10-K and 10-Q reports and quarterly earnings releases are available free of charge. Contact Tricon's Shareholder Relations at (888) 2YUMYUM or email tricon.investor@tricon-yum.com

Securities analysts, portfolio managers, representatives of financial institutions and other individuals with questions regarding Tricon's performance are invited to contact:

Tim Jerzyk
Vice President, Investor Relations
Tricon Global Restaurants, Inc.
1441 Gardiner Lane
Louisville, KY 40213
Telephone: (502) 874-2543

Independent Auditors

KPMG LLP
400 West Market Street, Suite 2600
Louisville, KY 40202
Telephone: (502) 587-0535

CAPITAL STOCK INFORMATION

Stock Trading Symbol – YUM
The New York Stock Exchange is the principal market for Tricon Common Stock.

Shareholders At year-end 2001, there were approximately 127,000 shareholders of record.

Dividend Policy Tricon does not currently pay dividends, nor does it anticipate doing so in the near future.

Printed on recycled paper.

Yum!

Hungry for more information? *Contact: www.triconglobal.com*

Design: Sequel Studio, New York


TACO BELL
KFC
Pizza Hut
"Alone, we're delicious. Together, we're Yum!"